

ENDING BUSINESS AS USUAL:

POLICY OPTIONS FOR A PROGRESSIVE GOVERNMENT



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About Compass

Compass is the pressure group for a Good Society, a world that is much more equal, sustainable and democratic. We mobilise the progressive majority of ideas, parties and movements to help make systemic change happen. Our strategic focus is to understand, build, support, and accelerate new forms of democratic practice and collaborative action that are taking place in civil society and the economy, and to link those with state reforms and policy. The meeting point of emerging horizontal participation and vertical resource and policy we call 45 Degree Change.

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**“This is not business as usual.
This is not more of the same.”**

Andy Burnham, launching his Makerfield by-election campaign,

22 May 2026

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Preface

This report has been commissioned by Compass to contribute to what we believe needs to be a broad public debate about the policy directions of the new British government under Andy Burnham. The Prime Minister has said he wants to ‘end business as usual’. The aim of this report is to set out what this might mean in eighteen different areas of policy. The report is not comprehensive: there are some important policy areas which are not covered. This is entirely due to the constrained timetable of production: nothing should be read into the significance or otherwise of missing issues.

This report is a menu, not a manifesto. In presenting around 70 policies altogether, there is no implication that all of them should or could be implemented simultaneously. Some are incompatible with others. A few are fiscally expensive and may not be affordable in the short to medium term. Some could not be introduced in this Parliament. The message is not that ‘all these should be done’. It is that ‘each of these could be done.’

Each policy chapter is written by an expert in that field, and represents only their own views. Authors and their organisations are not responsible for, and should not be taken as agreeing with, the chapters written by others, and nor should Compass.

Authors were explicitly asked to set out new proposals which would mark a break with existing policy, not simply minor modifications to it. (This helps explain the choice of topics.) In many chapters the authors have indicated in the introductory section where they largely agree with the policy directions set by the Starmer administration, and why in other areas they believe new directions are needed. For each numbered policy proposal, authors were asked to set out the economic and social benefits, the fiscal costs, the political advantages and disadvantages, and the means and possible timetable for implementation.

Authors were asked to limit the number of new policies per chapter to a maximum of five, and to keep each to two or three pages where possible. Each section includes further reading where more detail on the proposals can be found. Authors have confirmed that AI was not used in the drafting.

Compass would welcome feedback on all these policy proposals, both from policy experts in the various fields and from political activists and lay readers. Please send any comments to info@compassonline.org.uk

We also very much look forward to discussing these proposals with ministers, advisers and officials in the new government. Our hope is that these proposals will contribute to making the government more successful in delivering the economic and political change that Andy Burnham has promised.

Introduction: Ending Business as Usual

Michael Jacobs and Neal Lawson

Andy Burnham has made a positive start. Comfortable in his own skin, the new Prime Minister carries an invaluable aura of authenticity: in personal contact with members of the public, in his confident use of social media, and in his interviews and speeches to the country at large. His rhetoric has managed to be both bold and reassuring, a clever achievement. The government's first few policy announcements - the creation of No 10 North in an enlarged Prime Minister's Department, an initial cost of living package centred on electricity bills and bus fares, rate relief for pubs and entertainment venues, a radical plan for English devolution, commitments to the reform of social care, the overhaul of post-14 education and the ending of street homelessness - have been largely well received. Labour has moved above Reform UK in the polls for the first time in 18 months.

Burnham's assured performance has won grudging admiration from political commentators. But the same commentators have not been slow to point out that all new Prime Ministers have a honeymoon period when everything seems easy. The PM is already facing harder choices - such as on the prisoner release scheme and North Sea oil and gas licences - and the irresistible demands for higher public spending will soon come up against the immovable objections from jittery bond markets alarmed at the UK's precarious public finances. Burnham may have ambitious plans, but there is no guarantee that he will be given any longer to deliver results than his immediate predecessor. The public are disillusioned with politics and angry at their governments, and Burnham is famously not the Messiah. He is just a new PM with a lifeline. He has still to prove that he can take it.

Meaning what he says

In the traditional and broadcast media and on the podcasts, the received wisdom is that Burnham's rhetorical radicalism will inevitably have to be wound back. He will not, they argue, be able to fulfil the expectations he has himself raised, because the facts are against him. There is no room to tax, borrow or spend any more - and if there were, defence spending will use it all up. The war on Iran is raising inflation again. The public want incompatible things. Trump, Ukraine and Europe will distract the new PM, as they did the old one.

You can hear the palpable sense of relief among much of the commentariat as they reach this conclusion. To them it is almost unthinkable that Burnham could actually do the things he has promised. End 40 years of neoliberalism? Create a new economic model for the UK? Do politics in a different way? This is all surely pie in the sky, warm words which Burnham will have to eat in due course, as cold reality catches up with his naïve idealism. Ultimately you can be either bold or reassuring, they think, but not both. And in practice you can't be bold at all. There really is no alternative to the kind of reined-in, moderate centrism practised by Keir Starmer and Rachel Reeves.

This may be the received wisdom, but it is wrong. There are genuine constraints: the public finances are indeed tight, bond markets sceptical, the global economic outlook difficult. But it is simply not the case that a British government can no longer govern from the left of centre. That view says more about the limited imagination of mainstream media commentators than it does about the realities facing the new government.

Since 'political realism' is the proud hallmark of most of those who insist Burnham cannot be as radical as his rhetoric, it is worth remembering why he is now Prime Minister. It is because the voters rejected Keir Starmer's moderation. Just a few short weeks ago, in the May 2026 elections, Labour was absolutely hammered, losing to the SNP in Scotland, Plaid Cymru in Wales and both Reform and the Greens in England. Starmer's candidate lost the Gorton and Denton by-election. A few weeks later Burnham won the much more difficult Makerfield one on an explicit anti-Starmer platform of far-reaching political and economic change. He was responding to a public mood consistently captured by opinion surveys for more than a decade: the public are fed up with the high cost of living, the stagnation of wages, the decline of public services, the continuing rundown of town centres, the poor jobs and housing prospects facing young people, the loss of control of the country's borders – and the apparent inability of politicians, whatever they promise, to do anything about any of these things.¹

Labour is not in the habit of getting rid of a sitting Prime Minister. An exception was made this time because the party was on course to lose the next election to an increasingly corrupt Reform UK, peddling its MAGA-lite mixture of overt racism, climate denial, welfare cruelty and absurd English nostalgia. Burnham was the one person in the Labour Party willing, not just to say that a Reform government was unconscionable, but to do something about it. This was at huge personal political risk. And he did so not by denying the public's anger, as Starmer appeared to do, but by acknowledging it, saying it was justifiable, and vowing to make serious changes to the status quo to respond to it.

So the idea that, having got to No 10, Burnham will now abandon his radical ambitions and settle into a safe kind of 'Starmerism Mark II', as many commentators claim – and clearly hope – can surely be ruled out.

But equally, what kind of government Burnham's will be is still up for grabs. The Prime Minister is an experienced politician acutely aware that if Labour is to put together a winning coalition in 2029 it will have somehow to respond to the competing demands of a fragmented public. Some Labour MPs face competition from Greens and Liberal Democrats; others from Reform and the Conservatives. Business lobbyists and the right wing media have already set out their opposition stall, mounting a concerted campaign to scupper the appointment of Ed Miliband as Chancellor even before Burnham took office. The onslaught

from those quarters will be relentless, with constant claims that the new government's policies are unaffordable, a return to the 1970s, an attack on the middle classes, and whatever other accusations can be mustered. The trade unions, too, have already made their presence felt over the North Sea and other issues. Andy Burnham's staunch commitment to proportional representation will be challenged by diehard opponents among both unions and MPs.

Perhaps most of all, Burnham will have to contend with the pressures on a Labour Chancellor to conform to Treasury and City orthodoxy. Having served so long on the defence brief, John Healey's economic views are surprisingly unknown, but that is not the case for the institution he now leads, or for the vast majority of mainstream economic analysts who share its prescriptions. For them, the idea of departing from the economic status quo may be almost literally unthinkable.

Yet it is possible. As the economic chapters in this report note, the new Chancellor has more fiscal options than mainstream commentators are claiming. There are ways to borrow for new transport and housing developments off the government's balance sheet, using their future revenues to repay corporate bondholders without using the gilt markets. There are ways of raising taxes on wealth which do not break manifesto promises, do not hit ordinary households, and can contribute to a 'balanced budget stimulus' to boost short-term growth. The Treasury does not have to pay the Bank of England to compensate it for Quantitative Easing. There are 'invest to save' options of improved employment support to get people back into the labour market which will cut the welfare bill in due course. At some point the way the fiscal rules are designed, and the way the Office for Budget Responsibility works, can be changed, to make them more rational. Margaret Thatcher's famous TINA principle ('there is no alternative') is much favoured, but wrong.

Ending neoliberalism?

When Burnham says he wants to end 40 years of neoliberalism, this is not just an airy phrase plucked from the leftist liturgy. His analysis may be incomplete, but it is not empty. The economic settlement introduced by Margaret Thatcher, and largely maintained since then, involved the centralisation of Britain's government; the privatisation of its utilities, transport system, housing provision and other key public services; the deregulation of its financial and labour markets; and the deindustrialisation of its economy. New Labour undid some of the centralisation through devolution to Scotland, Wales and Northern Ireland, but maintained close control of English local authorities. It also hugely increased spending on public services, pensioners and children, re-establishing the social democratic contract that (mostly) progressive taxes pay for (mostly) universal public services. With its

package of new rights for workers, Starmer's government has undone some of the labour market deregulation.

But the rest of the neoliberal settlement remains pretty much in place, and Burnham has astutely pointed out how this is linked to the cost of living crisis households have experienced in recent years. Many of the most significant price rises have been in sectors where governments once had control but no longer do – energy, water, housing, transport and social care. And it is no surprise that in all of these sectors private operators have not just been raising prices but making supernormal profits.

So Burnham's anti-neoliberal priorities are clear, if not yet exhaustive. He will give much greater powers and responsibilities to combined and strategic local authorities in England. He wants to re-establish council house building and tenure. He would like to see greater public control, if not ownership, of the transport, water and energy sectors so that they operate for the public good. And he wants to spread 'good growth' around the country, where possible by encouraging 'reindustrialisation' in areas of the North and elsewhere still not recovered from the deindustrialisation of the 1980s. In so doing he wants to provide new jobs and training opportunities for young people not in employment, education and training. And he also wants to establish a national social care service in which social care homes owned by private equity companies will almost certainly play a smaller role.

Some of the details of these ambitions are becoming clear, but many still await definition. Greater public control of the water and energy sectors could mean many different things, from full nationalisation to simply more stringent regulation. If by 'reindustrialisation' Burnham means the revival of old-style manufacturing industries, that looks like a hostage to fortune, since most of those industries have long been priced out of Europe by competition from lower-wage economies, and modern manufacturing sectors mainly employ robots rather than workers. A less literal interpretation of 'reindustrialisation' will be required, one focused on good jobs (decently paid, with a career structure) in thriving sectors of whatever kind, well distributed throughout the country. Reform of social care could mean a nationalised service on the lines of the NHS or a more community-oriented model. There is clearly much to play for in how the new government interprets its ambitions in these and other areas.

Burnham's radicalism, however, is not limited to the economy. He also wants to reform the political system. This is partly, he says, about how politics is carried out – 'less point-scoring, more problem-solving', with greater cross-party collaboration and long-term focus. But it is also about Parliamentary reform, including proportional representation for the House of Commons and reform of the House of Lords. He has even held out the prospect of a written constitution, long the holy grail of democratic reformers. That would need to incorporate proper

protection of the right to protest alongside new safeguards against increasingly pernicious foreign interference in British politics and online media.

For the new Prime Minister, the economic and the political are closely connected. Burnham's view is that the economy cannot be changed without also transforming Britain's adversarial, centralised and short-term political system. Reform in both spheres is needed if the public's trust is to be won back. Voters need to feel that Parliament properly represents the country, and that the government is responsive to the public's demands. This in turn will give it the popular legitimacy to challenge the vested interests obstructing economic reform. And such reform is the only way the government can fulfil the public's hopes: to raise living standards, improve public services, meet new technological and environmental challenges and spread opportunity throughout the country.

This report

This is on any account a radical prospectus, and not one which Labour will be able to achieve fully before the next election. As Burnham has already said, it will need a ten-year plan at least. And it will have multiple different elements, many of which have not yet been prefigured or detailed in the PM's speeches and interviews.

But plenty of people – in think tanks, academia and NGOs – have been working over recent years on what those elements might be. In this report we have collected many of these policy proposals together. The aim is to show, across a range of policy fields, that the status quo is *not* inevitable. There are alternatives that offer new approaches to problems and issues which all the UK's governments since 2010 have failed adequately to address. They are feasible, costed, and polling evidence suggests almost all will be popular with key constituencies of the voter coalition which Labour will need at the next election.

As noted in the Preface, this report is emphatically a menu, not a manifesto. There is no implication that all of the policies proposed should or could be implemented simultaneously. The message is not that 'all these should be done'. It is that 'each of these could be done.'

Beliefs and principles

Since this report is not intended to be a unified package but a collection of options, the authors were not asked to reflect a common set of values or a pre-determined ideology. But the new government needs both. It needs a strongly articulated set of moral and political beliefs which underpin its actions and policies.

Values give governments purpose and grounding. They point to the directions in which policy needs to head (however compromised it may come to be in practice). And they demonstrate clearly to the public what a government is *for*. Ideological principles then help ministers decide how they will go about achieving their goals. ‘What works’ is rarely enough: civil servants need to know the broad approach to policy making that the government wants to adopt, and the public needs to understand its rationale.

We offer eight beliefs and principles which we believe should underpin the new government’s purpose.

First is a recognition that the UK’s economic model does not work for the majority of the population, and hasn’t worked at least since the financial crash of 2008. It has not significantly raised living standards for most people for nearly two decades, has given the majority little protection against the recent rise in the cost of living, and has seen a huge disparity grow between a minority whose wealth and life chances have greatly expanded and the larger number for whom they have not. The UK’s overall economic performance in this period has been consistently behind those of our peers on almost every metric: growth, productivity, trade, regional inequality.

Acknowledging the failure of the UK’s current economic model means doing something about it. That involves, inevitably, a more interventionist role for the state. Britain has tried the ‘market fundamentalist’ approach, in which the solution to every problem was either to get the state out of the way through deregulation and privatisation or to commercialise its public services. That has brought us to where we are now: from water companies simultaneously polluting, leaking and paying their executives bonuses to the thousands of promising British companies sold overseas; from the zero-hours contracts and exorbitant rents that are the fate of so many of those under 30 to the vape shops and slot machines of once-thriving high streets. There will always be business and financial interests, and their cheerleaders on the right, who argue that only more deregulation and lower corporate and wealth taxes can stimulate enterprise and create jobs (a case of ‘they would say that, wouldn’t they?’) But the evidence is firmly stacked against them, as wiser business heads know. A more active, intelligent state, analysing where markets are not working, shaping market conditions and guiding investment to where it will do most good, will not just help stimulate genuine entrepreneurship and innovation, but ensure that the fruits of economic growth are properly shared across the whole country.

Second, devolution does not just mean giving greater power to English metropolitan mayors. It is clear that devolution is Andy Burnham’s big thing, and that his own experience of being Mayor of Greater Manchester – in which role he had more powers (and central government resources) than any of his fellow mayors outside London –

has given him a strong sense of how much can be devolved to combined authorities which govern sub-regional geographies and have the status to attract highly competent politicians and officials. Burnham has a strong agenda here which he is already moving to implement, incorporating a degree of fiscal devolution – including the ability to spend national taxes locally – which the Treasury under any other Prime Minister would not have countenanced.

The principle that local authorities are better able to understand what their local areas need than central government, and that they should therefore manage the economic development strategies and most of the public services for their areas, with the appropriate powers and resources to do so, is an important shift in Labour thinking. But it does not go far enough on its own. As experience in Scotland shows, the principle of devolution does not end at ‘the next level down’. Since its own devolution settlement in 1999, there have been persistent complaints in Scotland that the national government in Holyrood hoards almost all the power and resources, leaving the sub-regions and local areas of Scotland no more responsible or better resourced than they were before.

Devolution as a principle means pushing decisions down to those most able to make them. It is not absolute – there are national government decisions which need to be made at national level and cannot be overridden by inevitable local objections. But there are many areas of public life where involving local people and community associations in local decision-making will generate both better, more responsive decisions and increase public trust in and respect for government. This is so-called ‘double devolution’: from Whitehall to town hall, and then further down to local communities. There is a whole agenda here, of community asset ownership and enterprise, which the new government could do much to promote.

Third, inequalities need to be reduced. This is more than a Labour platitude: it is a principle to guide policy making. British society is riven with inequalities – between the life chances of working class and middle class children; between the pay of men and women; between the racism experienced by people of colour and religious minorities, and its absence experienced by almost all white people; between the security and opportunity of those who have wealth and those who don’t; between the sense of possibility felt by those who live in thriving towns and cities and those living in areas still struggling.

The principle of reducing inequalities takes three main forms. It requires that policies do not deliberately make the poor poorer. This is important particularly in welfare reform, where (as the Starmer government showed) it is the easiest way of cutting spending, but is unjust and will be resisted. It requires that where there are choices to be made on who pays, such as in tax policy, the answer should always skew towards better-off people (and tax-avoiding businesses), who can

more easily afford it. But most of all it means that economic and social policy is aimed, not just at surface amelioration, but at tackling the structural causes of inequality. The Burnham government finally has the opportunity to address *why* the UK has become so unequal, in the way that the economy is structured and society ordered, and to begin to change those reasons.

Fourth, addressing the climate and ecological crises cannot be an optional add-on to the purpose of government today; it must be a core priority. Over the last twenty years Labour's early hesitation over the environmental agenda has been replaced by an admirable green ambition. The 2008 Climate Change Act was world-leading, and Labour has championed the growth and jobs-generating role of environmental policy. But even in the midst of this summer's evidence of the economic and ecological damage now being caused by climate change (and this is as nothing compared to what is coming, as global temperatures continue to rise) there are worrying signs that the new government is not as committed to acting on climate change even as Starmer's.

Kemi Badenoch, Nigel Farage and the right wing media may claim that the UK is uniquely and ruinously pursuing a net zero agenda, but it is nonsense. The war on Iran has accelerated a global shift towards 'defossilisation'. As the International Energy Agency notes, under the combined pressures of energy security, cost and sustainability - not to mention air pollution - the world is moving rapidly towards renewable power and the electrification of heat and transport. This has some short term costs, both in energy prices and job losses in nearly-exhausted oil and gas fields such as the North Sea, which the government rightly seeks to minimise. Ensuring a 'just transition', such as by speeding up the job-rich decommissioning of those fields, is critical. But reneging on the core of Labour's manifesto commitment to end new fossil licensing, or reversal of other key transition policies such as the shift to electric vehicles, would be a betrayal of the future - not to say a gift to the Greens and Lib Dems.

Fifth, and relatedly, difficult long-term challenges must be confronted, not avoided. The global ecological crisis - loss of biodiversity, soil degradation, ocean pollution, overfishing - is now closely intertwined with the climate crisis; together they are creating a serious and growing problem of food security (and therefore costs), from which the UK cannot be insulated. This will require much greater attention paid to farming and land use policy at home as well as cooperation internationally. Other long-term problems are also pressing on politics today. The demographic trends which combine to create an ageing population lie behind much of the rising cost of the NHS and welfare bill; they demand a quite new conversation about immigration which many people will not wish to have. And meanwhile the country seems to be sleepwalking into a future driven by artificial intelligence.

Offering both huge economic and social benefits and profound harms, the development and deployment of AI is occurring without any of the safeguards society has required of comparable technologies: nuclear, genetic engineering, human cloning, biosecurity. The impacts of AI on employment, particularly for young people; its implications for individual liberty and security; its rapacious energy and water consumption; its exploitation of human creative and intellectual production; its domination by a small number of giant US companies subject to almost no regulatory oversight; its capacity to outgrow human constraints: there is sufficient concern here to demand not merely intelligent public debate but regulation.

Sixth, all government today is inter-national. None of the above issues can be managed or solved by the UK government on its own: all require cooperation and in some cases formal treaties with other countries. This is a hard fact of modern politics, one which the nostalgic myth of 'national sovereignty' exemplified by Brexit has merely made more evident. That the Burnham government has come into office without a foreign policy is not surprising, given its hyper-domestic political origins; but it is not something which can last long. Any dispassionate look at the world will indicate the essential contours around which that foreign policy must be shaped.

We are living in an era of great power conflict – between the US, Russia and China – in which old alliances have been weakened (NATO, the EU) and new powers are asserting themselves (the Gulf states, Iran, Turkey, India, Brazil). In the instability and uncertainty thus created, the UK's position is weak: still dependent on the US for its defence, but no longer reliably; still dependent on the EU for its markets, but no longer a decision-maker; still a member of the UN Security Council but without even the soft power of a significant aid budget to project its influence.

The UK's foreign policy must therefore be directed towards 'plural multilateralism': the principled construction of international alliances among like-minded countries to deal with common challenges. On defence, immigration and economic regulation, the UK must become again a central player in Europe, if not yet the EU itself. On climate change and the reform of the international financial architecture (the IMF, debt and trade), the UK has natural allies among progressive emerging and developing economies – though it will have to start increasing its aid budget again to play such a role. On Gaza and the West Bank, only recognising Israel's unconscionable violation of international law and ending all arms sales to it will suffice.

Seventh, the public sector needs to get better at what it does. Much of the public's dissatisfaction with politics is in reality a frustration with the performance of the state. The complaint that 'nothing works any more' is partly a reflection of the diminished resources of local government (exemplified by the inability of councils to repair potholes), partly of the profiteering of privatised and outsourced services

(exemplified by the water companies on the one hand and Capita's inability to pay civil service pensions on the other). It's why 'control of our borders' has become so totemic.

But it also arises from the accurate sense that the public sector is not as dynamic, responsive or entrepreneurial as the best of the private sector. This is a particular challenge for a left of centre government: if the state does not work well, it is much harder to justify giving it a stronger role in the economy and society. In an age of complex demands and networked citizens, providing high quality public services requires a commitment to innovation: neither top-down bureaucracy, nor marketisation and outsourcing, are now routes to improving efficiency and reducing costs. Traditional service silos need to be broken down, and users and citizens involved in service design and provision. Fortunately, as this report shows, there is a huge amount of intelligence and experience around public sector reform in this country and across the world. The new government needs to invest in it.

Eighth, democratic pluralism is the only way to harness the UK's progressive majority, and therefore to enable deep economic and social change. The end of two-party politics means that Labour's post-war outlook – it's us or the Tories; as long as it's us it doesn't matter how small our vote – is no longer good enough. Labour can win a first-past-the-post landslide on 34% of the vote (that is, 20% of the electorate), as it did in 2024. But equally so can Reform UK. And it is even more likely that the right-wing bloc (Reform + Conservatives, possibly + Restore Britain) could form a governing coalition even if its combined popular support were less than that of the left-wing bloc (Labour + Green + Lib Dem + Plaid Cymru + SNP). If Labour is serious about long-term change, and especially about resisting the tide of racism that has engulfed the parties of the right, it needs to accept the reality that it is no longer the hegemon on the left. There are progressive voters whose first choice is another party, and Labour is going to have to find a way of forming governments in that context.

That means supporting proportional representation, as Andy Burnham and the Labour Party as a whole has recognised, but not yet all of its MPs or unions. Only PR enables the progressive majority of voters to ensure a progressive government. But democratic pluralism does not just mean a fair and representative electoral system. It means a way of conducting politics too. It is an acknowledgement that other people's views and party affiliations are worthy of respect, and that democratic governance always requires accommodation with others, through open debate, compromise and negotiation. That is understood by interests and stakeholders of all kinds outside the electoral arena. It is a commonplace in the Scottish Parliament and Welsh Assembly and in local government across England, never mind the rest of Europe. It should be true too in Westminster. Labour should not be afraid of it. It will make for better government.

Between them the policies set out in this report can be seen to embody all of these beliefs and principles.

Friends and allies

Labour under Andy Burnham cannot afford to fail. As he has himself acknowledged, this may be the party's last chance for a generation to show that it can put its values into practice in a way which makes voters feel both better off now and optimistic about the country's future. In the economic, political and culture-war context in which it is being taken on, it is an immense task. But it is not a task which the government can achieve on its own.

This report is all about policy. But governments do not stand or fall on policy alone. They succeed (and are re-elected) when the public feel that they are heading in the right direction, and are therefore willing to give them permission to carry on, even if the policy impact is not yet fully felt. That permission is not solely in the government's hands. Its messaging and communications must be excellent, as Burnham recognises (and Starmer seemingly did not). It must convey a clear and publicly identifiable set of values and purposes. But it must also cultivate a wider body of supporters who will make its case in the country at large.

Any Labour government, and particularly one which seeks to govern from the left of centre, will face concerted opposition from its opponents in the media and among the vested interests it sets out to challenge. Under previous Labour governments (including Starmer's) that opposition has often been sufficient to forestall and derail the adoption and implementation of radical, change-making policy. Only if the government has sought to build friends and allies in civil society – among NGOs and campaign groups, trade unions and progressive business leaders, academics and think tanks, old and new media commentators and influencers, young social movement activists and older armchair warriors; in short, among the progressive majority in society and not just in the Parliamentary Labour Party – will it be able to face down that opposition and create a sufficiently broad supporter base among the voters to enable it to be re-elected when the time comes. Building friends and allies in civil society is a task of government no less than harnessing votes, and a vital contribution to it.

Practical hope

On the steps of No 10, Andy Burnham said he wanted to put 'hope in every heart'. Cynics will point to the gulf between campaigning poetry and governing prose. But hope is a vital quality in politics. It is what sustains the public's consent in the interregnum between promise and delivery. It encourages a sense of national optimism. In a worrying

world, it can even make people feel personally happier. But it is also fragile and easily lost, as Burnham's predecessor discovered. The new Prime Minister has the opportunity to build on his remarkable achievement in making it to the highest office. But only if Business as Usual is consigned to the past.

Notes

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Introduction and rationale

The cost of living crisis is the defining issue of this time. Too many people are working hard but struggling to get by, unable to afford

1. The Cost of Living

Alfie Stirling, Joseph Rowntree Foundation

a good home for their family and a better life for their kids. Living standards today are barely higher than they were a decade and a half ago as wages have stagnated and the cost of essentials has risen. One in three families are struggling to make ends meet, and the majority of people feel the cost of living crisis will never end. This is an issue that unites voters from across the political spectrum as their top priority, with people up and down the country impatient for action from their political leaders.¹

The picture gets worse when you zoom in to the current parliament. The latest outlook for living standards implies families will be hundreds of pounds poorer in 2029 than they were in 2024, with most of the losses forecast to come in the next three years as the effects from the Middle East bite.² That's not supposed to happen. Since modern records began, real family disposable incomes have *risen* by the equivalent of around £5,000/yr (2026 prices) every 5 years. The current 'business as usual' is not going to deliver an economic record that is survivable at the ballot box by 2029.

This squeeze in living standards is a symptom of an economy that does not work for the majority of people. Fixing this will require long-term reform to rewire the economic system to make it work for low- and middle-income households. But people struggling to put food on the table, heat their homes – or even just go on a holiday like they used to – can't wait for this. Electorally they won't. It's therefore essential that a renewed offer to the British public delivers meaningful and visible change this side of the general election.

The high salience of the cost of living as an issue presents a political threat to the new government, but also an opportunity. While 'culture war' topics divide Labour's electoral coalition, an economic populist approach has the potential to unify it. Yet it is currently seen by voters mostly as an issue of competence, not ideological difference. By making a clear, sharp offer to voters on the cost of living, the new government can unite a broad coalition of support.

There is also a strong economic case for placing a cost of living agenda front and centre of a renewed programme for government. The key problem is how to provide the right support for families now, without provoking higher interest rates. The answer is to lower inflation directly by pushing down on essential prices, especially for low- and middle-income families. Government intervention which lowers prices can reduce measured inflation and help constrain second-order effects from the current inflation shock, reducing pressure on the Bank of England to raise interest rates.

There is also good – albeit often overlooked – evidence that improving household economic security in this way can help to drive longer-term economic growth as well. When people are more financially secure, they are both more productive at work today,³ and more likely to risk the

move to a better job tomorrow.⁴ Redistributive measures also support aggregate household spending in the economy, which may become more important at the latter end of this parliament if demand continues to undershoot expectations, and inflation and interest rates start to fall more rapidly.

In its first few weeks the government has already moved to take VAT (5%) off electricity bills, and cap bus fares nationally at £2. But the ambition of further support is limited by a lack of current levers for government – blanket VAT cuts are OK as an initial step, but they are poorly targeted and are limited by the level of VAT in the first place. The policies below are partly about building on existing measures to deliver even more substantial support now, given the scale of deterioration in living standards – both over the past five years and forecast for the rest of the decade. But they are also about building policy architecture itself, so policy makers can protect families more fairly and efficiently through future economic cycles, improving the UK's overall resilience to future shocks. Focusing on two essential prices, energy and renting a home, these measures can be delivered relatively quickly, commanding attention and shifting voter behaviour ahead of 2029.

1. Cutting energy bills

Context and current policy

Energy is essential to people's day-to-day lives. It is therefore critical that this essential good is available to everyone who needs it at prices they can afford. But the energy market is not functioning properly to deliver this, and for the majority of people, energy has become simply unaffordable. Average electricity bills have increased in real terms in all but three years since 2010.⁵ The energy price cap limits what energy companies can charge but does not prevent prices rising with underlying wholesale costs. The temporary VAT cut on electricity is a good signal of intent, but the government will need to upgrade again soon.

Proposed policy

The proposal has two parts:

- **Affordable Energy Guarantee.** The government should introduce an 'Affordable Energy Guarantee' that reforms the Ofgem pricing system to provide a basic portion of cheaper energy for everyone - with larger portions for those with lower incomes or greater energy needs. Under the guarantee an initial 'essential' block of energy consumption, set at 50% of Ofgem's Typical Domestic Consumption Values (TDCV), would be charged at a discounted rate, while consumption above that level would be charged at the current market rate. While all consumers would benefit from the initial portion of cheap energy, higher-income households that use greater amounts of energy would continue to pay market rates for any additional energy they use. The incentive to save energy would remain. To make the policy as progressive as possible and ensure protection available to low-income and vulnerable households is maximised, this policy could be combined with additional targeted support. This could be achieved by providing an additional 25% allowance for every child in the household and 'carve outs' for protected groups to ensure that those in receipt of means-tested and disability benefits receive the discount on all their energy consumption.⁶
- **Energy saving and electrification.** In the medium and long term, broader measures will be needed, including ramping up area-by-area home upgrades to enable more people to benefit from the bill savings associated with solar, batteries and heat pumps, and market reform to delink electricity and gas prices and squeeze excess profits out of the system. Greater public ownership of elements of the energy system, for example through Great British Energy, can help facilitate this. Some of these measures are discussed in the Energy chapter in this report.

Economic and social benefits and costs

The cost reduction from the Affordable Energy Guarantee would depend on the price set and the size of the discounted consumption offered. A £3 billion spending envelope could deliver an annual saving of £84 to the median household.⁷ It is much more progressive than either a lump sum payment or an Energy Price Guarantee (EPG)-style intervention (as introduced by the Truss government in 2022), with the largest benefits being experienced by low-income households, and with lower- and middle-income families receiving far greater support for a lower price tag for government than under alternative interventions.

Fiscal cost

The Affordable Energy Guarantee is scalable, so the amount of support offered can be increased or reduced according to the spending envelope allocated by the government.⁸ Energy support of this kind could replace the less well-targeted VAT cut in future years, but retain a focus on electricity to support the net zero transition. Further revenue

for larger envelopes could be raised by the tax reforms discussed in the Taxation chapter in this report, such as closing the gap in tax treatment between capital gains (and other forms of investment income) and earnings from work.

Political advantages and risks

These measures would be widely popular. JRF polling found that 75% of the public would support the government implementing an Affordable Energy Guarantee, compared with only 5% who would oppose it.⁹ By offering some support to everyone, but with major targeting of support to lower-income households, it would avoid the charge of disproportionately helping better-off people, and of disincentivising energy saving. The level of funding to these schemes – and therefore the discounts offered – would need to be decided in the context of the UK's fiscal position at the time of the Budget, and implemented within fiscal rules, to avoid being seen as unaffordable.

Implementation and timetable

Implementing the Affordable Energy Guarantee in its most robust form would require primary legislation and changes to the energy retailers' licence conditions. Some effects of the scheme could be proxied much sooner through more temporary measures.

2. Controlling rents

Context and current policy

For the past 15-20 years, private renters have been experiencing persistently high rent costs relative to their incomes. In 2024-25, private renters spent an average of 34% of their household incomes on rent, far higher than those with mortgages (19%) and those in social housing (28%).¹⁰ For private renters in the lowest income quintile, rents consume 63% of household income.¹¹ New supply alone cannot fix this: even if the government met its ambitious 1.5 million homes target by 2030 – which trends suggest it won't – the rent-to-income ratio would fall by just 1 percentage point.¹² All this has coincided with landlords making supernormal returns on their housing investments overall – on average far outstripping normal returns, both elsewhere in real estate and for standard economy-wide investments.¹³ Expanding targeted public subsidies for private rents would leave many who are ineligible behind, and is politically difficult given the government already pays £13.4 billion annually to private landlords in housing benefit. Rent regulation is the only policy that can realistically address the crisis facing private renters, and a range of policy organisations are now advocating for it.¹⁴

Proposed policy

The policy would have two parts:

- **Rent controls.** In the short term, government could deliver a temporary and nationwide emergency backstop, which caps rent increases at, for example, the Consumer Price Index (CPI) within tenancies, and CPI + 2% between tenancies. This could then be refined over time, including devolved powers to allow local decision makers to tailor rent caps for their specific housing markets within a wider framework.
- **Landlord tax reform.** The design of the overall package needs to ensure that any negative impact from rent controls on landlord behaviour and new housing supply remains muted, and thus outweighed by the benefits to affordability. In part this can be achieved by improving the tax treatment of rents. Landlord profits are highly uneven, with mortgaged landlords typically enjoying far lower margins than those who own outright. It is therefore mortgaged landlords who are most at risk of being squeezed out by rent controls. This can be addressed, however, through a 'tax swap': reinstating mortgage interest relief, and applying employer and employee National Insurance Contributions (NICs) to rental income. JRF modelling shows that the combination of rent controls and tax reform of this kind could actually reduce the number of landlords in financial distress overall, even compared to the status quo.¹⁵

Economic and social benefits and costs

The Joseph Rowntree Foundation calculates that a rent control and tax package of this kind brought in from 2025/26 would have saved renters £1,200/year on average by 2030/31, while improving the economic efficiency and fairness of landlord tax treatment and reducing the number of landlords in financial distress.¹⁶

Fiscal cost

This combination of rent controls and tax reform would have a net negative cost to the government: it could bring net fiscal gains of up to around £3bn in 2027 and around £1.5bn in 2030, even before scoring government savings on housing benefit, which would be significant.¹⁷

Political advantages and risks

Polls show that rent controls have overwhelming public support, including from a strong majority of Conservative voters and almost half of landlords.¹⁸ There is also widespread support for shrinking the private rented sector (PRS) in favour of social renting and home ownership - a shift that rent controls would help facilitate. JRF

modelling shows that reinstating mortgage interest relief and applying employer and employee National Insurance Contributions (NICs) to rental income can mitigate the impact of a rent control on mortgaged landlords most exposed to higher interest rates, while shifting more of the tax burden towards those making larger profits.¹⁹

Implementation and timetable

Rent regulation would require legislation. It could be implemented within this parliament, and provide immediate relief for renters, and government savings. Government should intervene to slow the growth in rents nationally, while allowing mayors to opt out or go further, so measures can be tailored for local housing markets.

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2. Reshaping Government

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Introduction and rationale

Since the 2024 election, ministers have not been short of rhetoric about ‘rewiring the state’ and how AI could transform public services and solve the deficiencies of the civil service. But there have been few plans to put these phrases into practice, and relationships with the civil service have visibly deteriorated. Any government needs to connect the poetry of its vision and ideas, the prose of its policies, and the plumbing, the practical means of achieving change. This chapter focuses on the plumbing, proposing ways to reshape government to improve the odds of success. These could, and should, start immediately; none requires much money or any legislation.

Forty years after the high point of Thatcherism, the British state is big. Our public sector absorbs around 45% of GDP and employs over 6 million people, including 4 million under central government and 550,000 in the civil service, up a third in a decade. The British state is a strange assembly of historical layers: Anglo-Saxon (the most efficient tax raising machine in Europe at the time), Tudor, colonial (the legacy of the East India Company) and imperial, late 19th century meritocratic, Fabian, Thatcherite and Blairite. All have left a trace.

This state has traditionally been seen as over-centralised, amateurish, literary, elitist, bad at big projects, with periodic commissions and reviews to fix the problems. These criticisms remain valid; yet the state under pressure responded reasonably well to two world wars, has achieved many successes, from cutting carbon emissions to school standards to terrorism. It has innovated many times (from institutions like the BBC and NHS to the welfare state, privatisation and deregulation, to using ideas like behavioural science and open data). It’s trusted much more than politicians, and 74% of UK respondents say they are satisfied with the administrative services they use — well above the OECD average of 66%.¹ This is one of many cases where the lazy ‘Britain is broken’ trope doesn’t quite fit the facts.

But the last decade has not been a high point, with austerity, Brexit and political instability all sapping confidence and competence, not helped by a particularly unhealthy fiscal position (worsened by poor management of Covid-19, the Truss budget and the long-term impacts of austerity). Poorer voters have become much more critical of civil servants and the state than the highly educated, both cause and effect of the culture wars now surrounding governments in many countries.² Labour has got much wrong about the practicalities of government, despite promising a return to competence. It should have prepared better; it shouldn’t have undermined goodwill through ill-considered attacks on the civil service; it should have created spaces for imagination and experiment; and it should have learned from the best of the rest of the world. So, what could be done now to achieve

a government that's trusted and competent, able to deliver on big promises, to combine technological skill and a human face?

1. A strategic centre able to mobilise intelligence – under the Prime Minister

A first priority is to rebuild the capacity for strategy and intelligence at the heart of government. A government with a big majority has huge potential power. But without a functioning central brain it defaults to permanent fire-fighting and panic. Strategy teams are needed urgently to work out what to do on the big gaps in Labour's programmes, such as how to boost growth and how to cope with AI. In the longer run they're also needed to shape clear and comprehensive strategic frameworks that describe what government is trying to achieve, wherever possible with explicit goals and milestones, providing a shape for performance management, budget allocation and accountability to the public. Without a clear strategic framework governments risk being driven solely by events.

Strategy obviously needs to connect to politics, and in particular to the big conversations needed to ensure the public are bought into the biggest choices, from defence to care, and that too needs a strong central capability for two-way, not one-way communication. Strategy should also increasingly be supported by a strong intelligence function which is vital at the heart of a modern government. In the past intelligence was primarily thought about in relation to security: intelligence about external and internal threats. Now governments need to orchestrate intelligence for all their activities, from education and welfare to energy and the environment, and they need to define intelligence broadly to include data, evidence, models, tacit knowledge, foresight, and creativity and innovation – all the means that can help them make better decisions, particularly under conditions of stress and uncertainty.

Most of the world's valuable firms are now based around intelligence. Yet in governments, intelligence is still marginal, divided by functional departments (health, economy, education and others) and with an overlaying division between specialisms (data, evidence, foresight, statistics and science advice). Instead, it needs to be sharply coordinated so that a Prime Minister and ministers can quickly access all that they need to know to guide decisions. Luckily it's possible for civil service teams to work far faster than in the past, using the full array of large language models (LLMs) to analyse, design, test and shape options. There is no excuse now for the amateurism that still often characterises the heart of the British state.

Such a revamped centre can then drive some of the other urgent priorities in reshaping government:

Simplicity and efficiency

A key challenge for any bureaucracy is how to reduce complexity: regularly and ruthlessly. Taxes, processes, protocols, contracts, burdens on citizens and businesses all tend to become more complex over time. Each addition of complexity has good arguments in its favour. But their net effect can be disastrous. One of the lessons of the Internet, which is based on simple and highly standardised protocols, is that radical simplicity can make it possible for more complexity to be organised at every level. Government needs to be active in both cost reduction and complexity reduction, slimming down the headcount to achieve a smaller, sharper civil service; and this has to be visibly driven from the centre.

The political right has largely captured the case for efficiency, and no Labour minister has shown any appetite to even talk about it. Yet every progressive should care about making public services and governments as efficient as possible, rooting out duplication, waste and unnecessary bureaucracy. DOGE in the US was a disaster. But no country can afford not to have some process for constantly cutting waste. This will save money; requires no legislation; and is essential to start now.

Reformed public finance aligned with government

Money drives much of the behaviour of governments. But the methods of public finance are now often misaligned with governments' objectives: ill-suited to spending on people; too short-termist, in an era of 100-year lives; and lacking data and intelligence to understand impacts. The next generation methods require much more systematic links between money and impact, using investment models and data to track impacts and enable better prevention and learning. While the Treasury applies detailed investment appraisal to capital projects, the majority of spending, which goes on people, is treated as an annual expense not as an investment. This is ironic, as people last longer than infrastructures now. Very different methods in the Treasury are overdue – learning from examples like the Early Investment Framework in Australia, public multipliers and 'whole of government' accounting. There has been much legitimate debate about fiscal targets which have often become absurd – with forecasts about the details five years into the future strongly shaping decisions today. But these other technical changes are just as essential to ensure finance is aligned with government priorities.

2. New structures for whole of government coordination and innovation

The next set of priorities concern how government works. The structures of government are still stuck in vertical silos that were essential in the 19th century but much less useful today, when so many

critical tasks such as net zero, pandemics or prosperity, cut across the silos.

Governments need to be able to organise horizontally with ‘whole of government’ methods that include cross-cutting budgets, roles, teams, strategic clusters and partnerships, platforms and digital infrastructures, all aligned to the top priorities. These need to be fitted to different tasks: what works for economic prosperity will be very different from what works for health, for example. (The ‘missions’ approach of the early Starmer government was far too vague and generic, which is one reason why it unravelled so quickly). The traditional model of relying on Cabinet committees is no longer adequate. In the future governments will look more like matrices, with a mix of vertical and horizontal roles, structures and processes, including the ‘stack thinking’ used in dominant models in computing and communications. These are becoming normal in many countries – with modular tools for everything from money to HR, consultations to service delivery, offering different options to the traditional vertical silos of 19th century administration that still dominate the UK state.

Reshaping ministries can be a big waste of time and effort. But there are some obviously overdue reforms needed to the shape of Whitehall: splitting the Treasury and creating a Department for Growth; revamping departments which aren’t currently fit for purpose (particularly DWP); and creating a small number of strategic oversight roles (not more than 6) while also, a layer down, creating some more focused departments to achieve specific priority goals, such as house building or borders.

UK government also needs new ways to coordinate with devolved administrations and Combined Mayoral Authorities. We need joint teams working on issues like housing and regional growth as well as a significant redistribution of people from the centre to the regions. Collaboration has severely deteriorated over the last decade, partly thanks to the disappearance of the Government Offices of the Regions, making it much harder to deal with the many challenges that straddle local and national government. Further devolution is essential – but without reshaped capabilities to use new powers it risks disappointment.

Innovation

One of the many virtues of a more decentralised government is that it can do innovation better. That matters because in uncertain times governments need to experiment. Many leaders in the past made this central to their governing philosophy, like Roosevelt in 1930s USA, who promised constant innovation. That means use of experiments and pilots wherever possible to test policies before they go to scale: supporting service and social innovations in fields like welfare and care to discover what works and then share the results in easily accessible

formats. We need more trial and error, not error and trial (i.e. unnecessary mistakes followed by inquiries and blame).

Much has been learned about how to do this well: how to organise innovation teams, budgets, procurement and commissioning, and how national and local government can collaborate. But this knowledge is repeatedly forgotten. There are some good small initiatives now like ‘Test and Learn’, but these need to become much more prominent. This government is putting ever more money into science and technology innovation (including £1bn in ARIA working on breakthroughs in science) but very little into social experiment, innovation and R&D on the issues that matter most to the British public: care, housing, and the future of democracy. This is odd for a Labour government, to say the least.

Creating new public institutions

Innovation is also vital for the creation of a new breed of public institutions. In the past Labour at its best created radical new institutions that embodied its values – from the NHS and the Open University to SureStart. Many things have changed in daily life. New public institutions are now needed for priorities including care, mental health and net zero, as well as public oversight of crucial systems, from water and transport to energy. Today’s public institutions look very similar to their equivalents 50 or 100 years ago, with remarkably little imagination apparent in recent creations, at a time when business and civil society have revolutionised their thinking based on platforms, algorithms and search.

Very different options are now available to the hierarchical organograms which are still the default when new public institutions are being designed. Often these can have much flatter structures; more use of technology to handle decisions and processes; and ‘mesh’ approaches that connect many tiers of government, business and civil society into formal partnerships.

Some of these can also become the home for next generation public services. Progressive governments around the world have reinvented direct services for the public, including in monies (Brazil), identification (India), poverty reduction (China), and health (Mexico). Digital ID is not a bad idea in itself. But it has been miscommunicated, and few know what problem it’s solving. AI makes it possible to develop a range of new ‘companion tools’ that could help people with the challenges of everyday life, from personal health to finances, jobs to neighbourhoods. These could be a defining feature of Labour in power, with each directly responding to pressing current needs, combining a shared national umbrella with locally controlled delivery.

3. A strong reform ethos supported by a new national school of government

Finally, government needs to encourage both new methods and new mindsets. In its first two years it lost the plot on civil service reform. It now needs a visible change agent. A new National School of Government was eventually announced in early 2026 but with a dearth of clear plans or energy. A new school should be organised in a networked way, connecting local government and devolved administrations; making the most of universities; and providing both online and offline content, on everything from procurement and AI to public engagement.

But above all it should promote new methods and ethos at a time when the public want government to be effective but also open and engaged. The ethos for public reform should be ‘strength without weight’: creating systems and processes that are powerful and effective but light, without the burdensome bureaucracy, law and process that characterised 20th-century government but over time have increasingly become a brake. Other countries – such as China – invest very heavily in the capability of their public services and politicians. We don’t, and we all pay the price for pervasive amateurism which means that many ministers have had literally no training to prepare them for their roles.

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3. Devolution

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Introduction and rationale

Andy Burnham has made English devolution – the giving of greater powers, responsibilities and resources to city mayors and combined and strategic authorities – the central mission of his new government. Some of his plans are now taking shape; others wait to be defined. His ambitions could go in different directions. And they should not be confined to England alone.

Over the past 45 years, England's local democratic state has been hollowed out. Decisions once routinely taken by elected councillors – on social housing, buses, schools, further education, social care, leisure and culture – have been removed, to central government, profit-making companies or quangos answerable to ministers. Discretion to set local budgets and raise local income has been lost to the Treasury which now effectively determines local budgets. Austerity has destroyed most remaining local services, like youth clubs and community facilities.

The 2026 English Devolution and Community Empowerment Act is welcome, but the current level of ambition is not sufficient to match the challenges local authorities face. Even in the most advanced areas (such as Greater Manchester), the scale of powers devolved and the autonomy granted fall well short of what is needed to transform local economies and public services. The government's current vision will still leave England's localities with far less control over the resources they raise and spend than in almost every other European nation.

England has a highly centralised system of public finances, in comparison to comparable countries. Only 5% of revenues are collected locally in the UK, and only 20% of all government expenditure is decided at subnational level in England. Internationally, fiscal decentralisation is positively correlated with a range of regional quality outcomes including GDP per capita. There is good reason to think that the UK's high degree of centralisation is related to its high degree of regional inequality.¹

The current funding model, dominated by central government grants and complex and competitive bidding mechanisms, perpetuates a hand-to-mouth dependency on Westminster. Most revenue rewards from local growth go straight to the Treasury, with limited ability for local partners to capture and reinvest any benefit. Overly centralised public finances further embed fragility by forcing local areas to focus on ever-changing national agendas rather than being able to fully pursue their own identified priorities.

The international evidence from the OECD is that the long-term confidence required for private investment needs clear local leadership from elected authorities, and locally led partnerships between public sector, private business and further and higher education. That

demands local authorities which have significant autonomous powers and funding sources.

The fundamental problem is that the pace of devolution is determined by central government. This needs to be replaced by a new constitutional settlement embedding the powers and autonomy – including fiscal autonomy – of local government. The shift from the present system to a new one will take time and can be gradual. But its principles and destination need to be clear.

Greater devolution in England can then tie into a new relationship between the four nations of the United Kingdom. Further devolution to Scotland, Wales and Northern Ireland should not mean the gradual fragmentation of the United Kingdom as a whole: it should allow for much stronger collaboration and policy learning between the governments of the nations to address common challenges. Devolution is an end in itself; it is also a means to better governance and higher quality public services. And whilst further regional and local devolution within the nations is rightly a matter for the national devolved governments, a more collaborative and respectful relationship across governments could allow for greater coordination on this and other policy areas.

A progressive approach to place-based collaboration across the governments of the UK requires Whitehall to view, engage with, and co-operate with the devolved governments not as mere implementors of policy or as competitors, but as partners on shared challenges.

In ensuring parity of treatment and esteem across the devolved institutions, moves should be made towards a more symmetrical settlement (fiscal, legislative, executive competence), less restrictive devolved government borrowing powers (as a lever for place-based long-term investment, potentially interacting with reform of the Barnett Formula), and strengthening the Sewel Convention.

Taken together, alongside the case for collaborative governance in our third section below, these changes would both demonstrate that ‘the days of Whitehall fighting the devolution of power are over, for good’, and help create the conditions for investing in cross-UK relationships organised on the principle of collaboration, towards common goals of good growth, better living standards, better public services, and national security.

1. Deep devolution: a new constitutional settlement for local government in England

Context and current policy

The English Devolution and Community Empowerment Act 2026 is introducing the most wide-scale reform to local government in England since the establishment of directly elected mayors and combined authorities in 2016. The Act provides for the creation of single-tier unitary authorities all over England, with a population size of roughly 500,000, along with new combined 'strategic authorities'. The Devolution Priority programmes will see close to 70% of England's population covered by mayoral devolution. The Act gives the new strategic authorities limited scope over transport, housing, adult education and skills and the establishment of local growth plans, and the right to request further powers. Mayors will get the ability to borrow and to speed up housing development. The reorganisation of local government is controversial and difficult at local level and will continue to absorb energy in Whitehall for a few years. But the Act is not the end of the devolution process.

Devolution has a critical role to play in public service reform. Devolved power does not just produce better transport plans or more tailored growth strategies: it is also the level at which prevention, integration and reform can most credibly be joined up. It enables the state to intervene earlier, pool budgets to deliver outcomes, join services together, and reshape delivery around people's lives – all of which can also have a positive economic impact. This requires institutions capable of working across organisational boundaries, with sufficient autonomy to tailor approaches to local assets and needs. Place-based budgeting, neighbourhood-enabled reform, and stronger local capacity to act as public service test beds are not optional extras; they are a core part of what devolution is for.

Proposed policy

Deeper devolution in England should have three core elements:

- **Putting devolved local government on a constitutional basis.**
This is critical to ensure that its structure and autonomy cannot easily be changed by Parliament. This should include making the currently informal 'Mayors' Council' a statutory body for all English local authorities, with the right and duty to co-design devolution policy with the UK government. This is where local and national should come together to decide the funding and fiscal autonomy of devolved local government. Without a sound legal foundation, a future Westminster government could change its mind about devolved powers and refuse to provide sufficient resources. The Council of English Local Authorities would also give a collective voice to England, currently missing from our current constitution. This could be supplemented by the creation of a Minister for England. At the same time independent Local Public Accounts Committees (LPACs) should be created to scrutinise local government spending and efficiency. These would have a mix of senior councillors and

independent members and be supported by expert advisors from the new Audit Service.

- **Widening the scope of devolved powers and responsibilities.** In 2009-10, the last Labour government was beginning to develop a more radical approach than that embodied in the 2026 Act. The 'Total Place' initiative suggested that, in principle, all public money spent in an area – whether by local authorities, national quangos or the NHS – should be seen as one local public service budget. This makes it possible to break down the silos between services that so often create both gaps in provision and wasteful duplication. It would enable, for example, the better collaboration between prisons, probation, skills, mental health services and housing needed to reduce reoffending and cut the prisons bill. It would enable resources to be shifted over time from the crisis response of NHS spending to public health prevention. Services could be designed around the needs of individuals, families and communities rather than making them engage with numerous agencies. Total Place ran a dozen successful pilots before being scrapped after the 2010 election. Since then, numerous local initiatives and some central government projects have demonstrated how joined-up working cuts costs and improves services. Some functions currently held by arms-length national bodies will need to move to democratically elected ones.
- **Empowering the local.** In many parts of England, smaller district and unitary councils are being merged into much larger strategic authorities. This risks making local government more remote from local communities and people. The 2026 Act requires all local authorities in England to establish 'effective neighbourhood governance', but the details are vague. These arrangements must be shaped to genuinely empower local people and community organisations. Central government should require strategic and local authorities to establish Neighbourhood Councils or Combined Neighbourhood Councils (with a population size of 20-50,000) as legal entities with a general power of competence. They should be empowered to draw funding from a council tax precept. They should become the default recipients of community-targeted government funding streams. They should formally recognise the involvement of existing community groups, and there should be an explicit duty on local authorities to proactively map, enable, and drive the mobilisation of community-scale and neighbourhood activities in 'unparished' places. This activity should be resourced through the addition of a 1% precept on locally raised council tax, match-funded by central government from an expanded Community Wealth Fund.

Economic and social benefits and costs

A devolved government puts more policy making in the hands of people who are expert about their areas and are accountable to local citizens.

Experience in other countries suggests that it will therefore generate better and more responsive policy.

Fiscal cost

The new local authorities will want more resources to achieve their goals, leading to additional pressure on spending. But place-based budgeting and joined-up service delivery, both within the new local authorities and across national and local policy silos, will allow the development of more preventative and integrated services. This should in due course lead to fiscal cost savings.

Political advantages and risks

While the public are not generally well informed about local government reorganisation, there is general public support for further devolution in England. In a 2024 Centre for Cities/Focaldata poll, majorities of respondents felt that issues such as housing, transport and homelessness should be decided at the local or regional level, by metro mayors or local councils, rather than by central government. An Opinium poll in April 2024 for the New Economics Foundation showed 37% of Britons think local government should have more power and resources to solve local problems, versus only 11% who think local authorities should have less power.²

Implementation and timetable

As the new councils become established, there will be scope to advance place-based budgeting and policy integration. The deeper constitutional reforms, expansion of policy scope and hyperlocal reforms will require a new Act of Parliament. Given the need to ensure the 2026 Act is fully implemented, this could be introduced before the next election for implementation after it.

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2. Fiscal devolution in England

Context and current policy

Over recent years, the idea of fiscal devolution in England has become more popular. Under the Conservatives in 2023, 'trailblazer' deals were done to give Greater Manchester and the West Midlands new revenue flexibilities, with full discretion over a single, multi-year funding pot and 100% retention of business rates. Gordon Brown's Labour constitutional reform commission called for a range of new fiscal powers for local government to incentivise growth.³ The government is currently consulting on the introduction of local visitor levies or 'tourist taxes', and the former Chancellor Rachel Reeves indicated that the Treasury would prepare a 'roadmap' for fiscal devolution in the next Budget.

Proposed policy

Fiscal devolution should have four core elements. These should be embedded in the new constitutional settlement for English local government recommended above, underpinned by a constitutional guarantee (as in Germany) of 'equivalent living standards'.

- **A 'local tax guarantee'.** Local authorities should retain a share of locally generated income tax and VAT – the main national taxes which reflect economic activity – alongside 100% retention of local business rates revenue. This would give them a much stronger stake in the revenue gains from stimulating local business activity and employment. It would establish sustainable sources of funding which can be borrowed against to support future growth. It would reduce the current dependence of local authorities on short term and ad hoc national government funding decisions.

- **A ‘solidarity system’ of national equalisation between areas.** This should underpin the local tax guarantee. This should draw on lessons from countries like Denmark and Germany, which have strong systems of annual equalisation between localities and regions. It should be based on an assessment of areas’ revenue resource base and spending requirements, in order to identify fiscal transfers from places with a structural surplus to places with a structural deficit.
- **Land value taxation.** Business rates should in due course be replaced by a land value tax based on the undeveloped value of non-residential land.⁴ This would give landowners and local authorities strong development incentives. Local authorities should retain the revenues and be able to vary the rates.
- **Council tax reform.** Council tax should in due course be replaced by a proportional system of local property taxation based on current property values, as set out in the Taxation chapter in this report. Local authorities should have standard 10 per cent year-to-year variation power over the council tax precept to raise council tax without a referendum.

Economic and social benefits and costs

Fiscal devolution would give local authorities greater fiscal autonomy, responsibility and accountability, to match their greater devolved powers. It would give them much stronger incentives to encourage local economic growth.

Fiscal cost

Fiscal devolution would not necessarily increase overall taxation or public spending. If designed as revenue retention alongside a national equalisation system, it would primarily change how revenues are allocated between central and local government. There would, however, be some transitional and administrative costs in designing and operating the new system.

Political advantages and risks

Fiscal devolution is the obvious corollary of local authority reorganisation and devolution of powers, but would need to be taken forward gradually to ensure that local authorities have the required competence and capacity.

Implementation and timetable

Revenue retention can initially be simply a funding and accounting decision by the Treasury, which could be implemented by a number of early adopters among combined authorities. Permanent structural

reform on revenue retention and equalisation would require legislation; given its complexity and unfamiliarity this might be best done in the next Parliament. The proposals for reform of business rates and council tax are complex and controversial, and might best be done following an independent commission of enquiry to establish their legitimacy and practical details.

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3. Stronger intergovernmental collaboration

Context and current policy

The UK faces profound and long-term economic and social challenges, including the impacts of an ageing population and of AI and digital technologies, low growth, the decline of both political trust and social cohesion, health inequalities, public service reform and national resilience (including pandemic preparedness and climate change). None of our governments, including the UK government, can address these challenges acting alone. A range of other issues cut across the boundaries of Westminster and devolved government, such as the cost of living, child poverty, ending violence against women and girls, health service reform, mental health and wellbeing, energy security and infrastructure, national security and defence and relations with the EU and opportunities for growth.

In 2024 the Labour UK government set up a Council of the Nations and Regions to facilitate partnership working on cross-cutting issues between the UK government, devolved governments and mayors of combined authorities 'on a structured and sustained basis'. But it has met only twice, and its potential has not yet been fulfilled. Its officials are located in the Cabinet Office, making its activities a function of the Westminster government.

Proposed policy

The Council of the Nations and Regions should be established as a properly cross-governmental body, with an independent and permanent civil service staff drawn from all the UK's devolved governments, and an active and continuous work programme on cross-cutting challenges and issues.

Its core purpose should be the practice of collaborative governance, with new ways of working in partnership across jurisdictional and territorial boundaries to achieve shared policy goals. The work programme would aim to learn from experience and best policy practice across the UK and overseas. For example, the terms of reference for the top-level Australian intergovernmental relations forum, the National Cabinet, commits participants to 'genuine partnership' and 'priorities developed collaboratively and agreed to by First Ministers'.⁶ The forum has been an important collaborative policy body in efforts to address societal challenges such as gender-based violence and antisemitism.

Focusing on major issues of joint concern, across the 'geometry' of powers, a renewed Council of the Nations and Regions would enable a new shared approach to policy development and implementation, drawing on the collective capability and resources of the UK's multi-level governance, and wider private and public sectors. It would provide the collective political direction, and agreement, for joint teams and programmes where appropriate (drawing on international practice, such as the Spanish sectoral conferences).⁷ In the first instance it could focus on growth and regional development, ending violence against women and girls, and raising living standards.

The Council would meet at the level of the Prime Minister and First Ministers twice a year (with rotating venues), with other ministerial-level meetings as determined by the work programme. As devolution is deepened in England, the Mayors' Council would agree a system of representation for meetings of the Council.

A 'Minister for England' should also be created, to represent English government on the Council, and more widely to speak on English matters in Parliament and in the country.

Economic and social benefits and costs

The Council and its programmes should encourage and enable better and more collaborative policy making between the UK and devolved governments and local authorities, in areas critical to the governance of the UK as a whole. It should help ensure that the interests of Scotland, Wales and Northern Ireland are better taken into account in UK policy making. It would give the UK's system of intergovernmental relations a real purpose, with co-ownership of the system and efforts to address

major strategic issues. It would mark a significant change in how UK governance is able to fulfil the commitment to the guiding principle of place-based collaboration.

Fiscal cost

The establishment of a larger staff for the Council would entail a small additional fiscal cost, in the tens of millions of pounds pa.

Political advantages and risks

Voters in Scotland, Wales and Northern Ireland do not generally look favourably on the ability of the UK government to represent the interests of their nations. In Scotland, for example, in a 2023 survey, only a fifth (21%) trusted the UK government to work in Scotland's best interests, compared with just under a half (47%) for the Scottish government.⁸ If sufficiently publicised, strengthening intergovernmental relations could help address this issue. In a recent poll conducted by More in Common for PolicyWISE, over 50% of voters in Scotland and Wales said they believed that the governments of the UK 'could work well together but aren't right now.'⁹

Implementation and timetable

The Council could be strengthened and its programme expanded within the current Parliament, without legislative change.

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4. Democratic Reform

Jess Garland, Electoral Reform Society

Introduction and rationale

Trust in politicians and political institutions is at an all-time low. Today only 12% of people trust governments to put the interests of the nation above those of their own party.¹ This is the lowest level since the question was first asked in 1986. Satisfaction with the democratic system, already in long-term decline, plummeted in the Brexit years. In 2019, more than half of people were dissatisfied with democracy in the UK for the first time since records began in the mid-1970s.² The implications of this have been felt at the ballot box; the 2024 general election recorded the second lowest turnout in the era of universal suffrage. Rejection of the status quo can be seen in the Brexit vote, growing party system fragmentation and rising populism.

But there is much to suggest that this can be turned around. Commitment to democracy in the UK is strong and there are indications that people have become more positive over time. In 1999, 76% of people in Britain thought democracy was a very or fairly good way of governing; but this rose to 92% in 2018 and was 90% in 2022.³ Millennials, who were previously much more sceptical about democracy, are now similar to other generations in their support. People in the UK believe in democracy; they just want it to work better.

The politics we get is greatly shaped by the structures that underpin it. The way decisions are made provides the scaffolding for everything that follows. In this sense how democracy functions, and the cultures it promotes, underpin all other social and economic change.

The question that sits underneath the reforms proposed here is: who has power and voice? Is it people and communities, or corporations and vested interests? In this way these changes are radical – they aim to shift power and the popular perception of power. But they are also simply about making democracy work the way people expect it to work. To reshape democracy to better fulfil its promise is an ongoing task of all democracies, and one that is increasingly necessary and urgent in a world where people are losing faith in democratic institutions.

But this is not a step into the unknown - all these reforms are tried and tested. They move the UK towards a model of democracy that is familiar in three of the four nations of the UK. In this sense they pick up and build upon a Labour history that promoted power-sharing democratic models throughout its post-1997 reforms. The necessary next step is to reshape Westminster politics in the same way.

1. Proportional representation for the UK

Parliament and local government in England

The underpinning principle of PR is that it is a fairer system – one that ensures that Parliament (or any other elected assembly) accurately reflects how people have voted, and that voters have the freedom to vote for who they want. But in our newly fragmented and volatile electoral landscape it is also likely to bring greater stability, and to avoid highly disproportional and fragile results.

Context and current policy

The government has already reversed the imposition of first past the post (FPTP) on mayoral elections. This recognises that in a highly fragmented political system, FPTP may allow winners to take power on as little as a quarter of public support. This same problem applies to Westminster, where MRP polls in January 2026 showed Reform UK forming the next government with a majority of over 100 seats on a 31% vote share.⁴

Proposed policy

The most obvious options for electoral system change would be one of the UK's current systems: Single Transferable Vote (STV) or Additional Member (AMS). Both these electoral systems have a constituency link (in one case, by having larger multi-member constituencies, in the other by retaining existing constituencies but then adding non-constituency MPs) as well as delivering more proportional outcomes. Modelling of the 2015-19 and 2024 elections provides an indication of how different systems would behave at the Westminster level.⁵

STV has been used for local government elections in Scotland since 2007 and is used in Northern Ireland for both local and Assembly elections. STV uses multi-member constituencies and is therefore very well suited to local government elections in England which already predominantly take place in multi-member wards.

AMS, used for elections to Holyrood (and previously the Senedd), uses party list seats to 'top up' and partially compensate for the disproportionality of the FPTP element of the system - taking into account how many constituency seats have already been won by a party. This system could be used for Westminster elections, keeping the existing constituency boundaries and pairing constituencies using a 50:50 ratio of constituency and list seats. But there are also options to have a larger number of constituency seats (Scotland has 57% constituency MSPs and 43% List MSPs; the ratio in Wales was 67:33). The larger the list element the more proportional the outcome. New Zealand and Germany both use versions of this system in their national parliaments.

Different electoral systems have different strengths. Whilst both systems would be appropriate at the Westminster level, a process for deciding on the system would be advisable. The Welsh government

convened an expert panel which assessed systems against a list of principles including proportionality, diversity, voter choice, accountability, and others. In British Columbia, a citizens assembly did this work. There is no reason why the Westminster system and English local government system could not be considered at the same time, but logically electoral reform at the national level comes first.

Economic and social benefits and costs

The public needs to trust the government to make difficult decisions and, correspondingly, public support is needed for decision-makers to have the confidence to make those decisions. Ensuring elections deliver legitimate and trusted outcomes is therefore central to good policy-making.

PR systems typically see greater policy stability than Westminster-type systems in which a lack of collective veto points (such as between coalition partners) and competitive veto points (such as second chambers and federal governments) often leads to a failure to secure wider cross-party buy-in and address long term issues. Unlike in other countries, UK governments are rarely required to compromise to achieve legislative success. This speeds up change, excludes alternative views, and pushes other parties into opposition, promising to undo the changes once in office. The result is a type of 'pendulum democracy'.⁵ This ability to make major, rapid policy shifts also often leads to policy blunders.⁶

Fiscal cost

There are no ongoing costs for most PR systems compared to FPTP. In the simplest of terms, it's a change to the design of the ballot paper. There would be costs for communicating the change to voters as part of normal election communications. If boundary changes were required outside of the new cycle (every 8 years), this would also have a cost.

The process used for engaging the public in the decision to change the electoral system would have a one-off cost. A citizens' assembly would likely cost between £150,000 and £750,000. Referendums are significantly more expensive – the 2016 Brexit referendum cost £129m.

Political advantages and risks

The British Social Attitudes survey, which provides a rigorous and longitudinal measure of public opinion, has recorded majority support for PR at Westminster since 2021.⁷ It attracts the highest levels of support from Green and Lib Dem voters and is supported by a majority of Reform voters. PR also commands robust support amongst Labour voters - the 2024 landslide did not greatly affect support from Labour voters as would normally be expected. Broad support is important,

as in recent years valuable democratic reforms have been unfairly attacked as partisan.

With party fragmentation at its highest ever levels at the last General Election and growing since, an electoral system that reflects genuine voter choice is necessary to avoid deepening democratic disconnect and warped electoral outcomes.

Implementation and timetable

Consultation and cross-party support have not always been sought in electoral matters (for example the change to the mayoral voting system in 2022) but any change in this area does need to command a high level of legitimacy. The process for change is therefore important in building trust, support and longevity.

There are a number of examples of processes for changing the electoral system to draw on: the Wales Expert Panel (2017), the British Columbia citizens assembly (2004), the Fair Elections APPG National Commission (2025), Westminster Foundation for Democracy principles (2026).⁸

Implementation could start with an independent process to consider which system is most appropriate (this could be through an expert panel, a citizens' assembly or a Commission), which could then shape manifesto commitments for implementation in the next Parliament. There is precedent for holding a referendum on a change to the electoral system, but it is not a constitutional requirement and the use of referendums has been inconsistent over the years as a result. An election manifesto commitment would also provide a public mandate, particularly if supported across a number of parties. Another consideration is putting a review mechanism into the legislation so there is a process for reviewing the operation of any new system after an appropriate period. The Senedd Cymru (Members and Elections) Act 2024, for example, did this.

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2. A Senate of the Nations and Regions

Context and current policy

The House of Lords (Hereditary Peers) Act has now passed, completing the move to end the role of hereditary peers in UK legislation. This builds on a long history of significant work on Lords Reform from the 1999 Act and Wakeham Commission to the 2022 Brown Commission for the Labour Party. Labour's 2024 manifesto contained a commitment to consult on 'stage two' of Lords reform – establishment of a new upper chamber. Implementing stage two would be the completion of this historic body of work.

Proposed policy

There are many ways to reform the House of Lords and many proposals. However most share the same goals of a smaller and democratically legitimate chamber. House of Lords reform is particularly important in the context of devolution. It is not enough to devolve power; power must also be shared at the centre. Reform of the Lords creates opportunities to build links to regional and devolved government through the second chamber's structure, powers and processes. This type of territorial representation is typical for second chambers in both federal and non-federal countries.

Many second chambers combine a mixture of direct and/or indirect election with a small element of appointment (often ex-officio members). This combination of directly and indirectly elected members would serve a chamber that was tasked with substantial bill scrutiny

and revision (as now), as well as providing greater linkages to regional and devolved governments.

A smaller, more democratic UK Senate could be composed of 300 members directly elected in large multimember constituencies by STV or regional lists, with constituencies (of varying numbers of seats) based on counties to provide historic continuity and identity. Elections could be staggered, with 150 members elected every three or four years to ensure that at least a proportion of the upper house is elected less recently than the Commons, thereby weakening the charge that it would challenge the democratic primacy of the House of Commons. This would also mean that the second chamber has greater continuity of membership and a different political composition to the Commons.

To ensure the chamber achieves greater territorial linkages, an additional number of members could join by indirect election. Directly elected regional Mayors and elected members of the Scottish Parliament, Senedd and NI Assembly could be given rights to attend, speak and vote through appointment or indirect election by their respective chambers, thus reflecting their party balance.

Committees focused specifically on territorial interests would provide a strong voice within a reformed upper chamber. It would make sense to bring the new channels for Intergovernmental Relations (IGR) into the Senate (see the Devolution chapter in this report). The Brown Commission recommended that a reformed upper house could oversee the work of new intergovernmental councils through hearings and committees.⁹ This would ensure that IGR is embedded in Parliament and not subject to the whim of any incoming government.

A good example of this type of mix is the Spanish Senate, which combines direct and indirect election based on different territories. The majority of senators are directly elected in multi-member constituencies based on the 51 provinces, and around a fifth are appointed by the legislatures of the autonomous communities in proportion to the party groupings in those parliaments. Indirectly elected members are often, but not always, members of those legislatures. The largest committee in the Spanish Senate is the General Commission of the Autonomous Communities (the 17 sub-national levels of government), a permanent committee which, amongst its very broad competencies, scrutinises legislation from a territorial perspective and debates territorial issues.¹⁰

Economic and social benefits and costs

The House of Lords is currently highly imbalanced regionally, with 45% of peers registered as living in London and the South East - only 3% from the North East, 3.6% West Midlands and 4.3% from the North West (based on available data on 467 peers). Its structures privilege particular views (peers mainly come from elected politics, business,

banking and finance) and provide a direct channel into government for corporates and foreign states: a Guardian investigation in 2025 found that 91 peers had been paid by corporations to give political advice, and 10 out of the 13 members of the financial services regulation committee had jobs in the sector. Transparency International highlights a number of further corruption risks.¹¹

Fiscal cost

The House of Lords Reform Bill (2012) impact assessment noted that reducing the number of peers would create savings even taking into account greater staffing costs and salaries (the bill proposed 462 members).¹² This does not include the cost of elections for a directly elected chamber.

Political advantages and risks

House of Lords reform is both popular and symbolic. There is strong and sustained support for reform across voters of all parties - only 16% of people support the status quo and only 14% have a positive view of the House of Lords.¹³

Past attempts at reforming the Lords have met with opposition. The Hereditary Peers bill faced the threat of very aggressive procedural action and sustained attempts to delay and frustrate the legislation. However, all parties have historically committed to Lords reform in their manifestos.

Implementation and timetable

The reform would require an Act of Parliament. The timescale depends on how the process is designed, for instance whether there is a Commission and wider engagement phase, and whether a Parliament Act (allowing the House of Commons to pass legislation against the wishes of the House of Lords) is required. It is likely to require two or three parliamentary sessions for completion.

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3. Cleaning up political finance

Context and current policy

The current Representation of the People Bill addresses longstanding political finance loopholes in relation to impermissible and foreign donations. This follows the Rycroft Review recommendations, including a cap of £100,000 on donations from British citizens living abroad.¹⁴ However, the problem of domestic ‘mega-donations’ remains and is a growing issue for the public, who recognise that the very wealthy have a major say in our democracy. With no ceiling at all on donations, there is also a serious risk of party capture.

Proposed policy

A cap on all political donations would further reduce the risk of foreign interference and address public concerns about the role of money in politics. There are options as to where to set the limits. A £100,000 cap would align with the recently announced cap on overseas donations. However, a £50,000 cap could also be used without requiring a recourse to public funding of political parties. The public favours lower caps – two-thirds support a cap of under £50k, including 25% supporting a total ban.¹⁵ The Committee on Standards in Public Life (2011) recommended a £10k cap and that union donations should be treated as a bundle of individual donations (subject to an ‘opt in’), while the Phillips Review (2007) recommended the same but through an ‘opt out’.¹⁶

Economic and social benefits and costs

Political parties are increasingly dependent on a small number of very wealthy donors. Transparency International found that in 2024, private donations from companies and individuals giving £1 million or more made up 35% of all political donations – in 2015 it was just 1%.¹⁷ This increases the risk of these donors having an undue influence on the direction of policy. Many firms making donations to political parties in the UK have also received public contracts. Though firms may have received these contracts before making party donations, the connection is unhealthy; many countries therefore ban corporate donations.

Fiscal cost

A donations cap has no cost unless public subsidies for parties are increased. Transparency International calculates that with a reduced spending limit, an annual donation cap of £50,000 could be achieved by 2030 through a progressive series of yearly caps, without parties needing recourse to additional public funds.¹⁸

Political advantages and risks

Sixty per cent (60%) of people think that wealthy donors give money to gain influence, compared to the 6% who believe it is driven by support for the party. Only 13% of people think that there should be no limits on how much people can give in political donations.¹⁹

Electoral Commission analysis shows a long-term decline in public confidence in political finance. Their recent in-depth research shows that people want rules that prevent wealthy individuals, foreign actors and companies having undue influence on parties and that donation caps, increased public funding, closing loopholes and an increase in the maximum fine would help build trust in the system.²⁰

Donation caps have been adopted in Australia in recent years at both state and federal level. South Australian Premier Peter Malinauskas introduced a complete donation ban in his first term in office, supported by a new system of state funding. Malinauskas has since won a second term in a landslide result (the largest for the SA Labor party).

Implementation and timetable

Political finance is a reserved matter and requires primary legislation. The government will be amending the Representation of the People Bill at Report Stage to include the recommendations of the Rycroft review including a £100k cap on donations from overseas. The bill is expected to return for Report and Third Reading in the autumn. It could be amended to incorporate the above proposals.

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4. Institutionalising deliberative democracy

Context and current policy

Around the world the principle of deliberative democracy – that public policy making should include citizen participation, using independent evidence, reasoned argument and thoughtful discussion – is increasingly being used to guide decisions.²¹ In the UK, parliamentary select committees have held assemblies on adult social care and climate, the Cabinet Office has launched a People’s Panel on digital ID, and local councils across the country have held assemblies on a range of issues. But more is happening in the devolved governments. The Scottish Parliament has a dedicated Participation and Communities Team which organises people’s panels which feed into the scrutiny process and have a programme looking to institutionalise deliberation and participation. The Welsh government is working to mainstream public participation in decision making.

Proposed policy

Institutionalising deliberative and participatory democracy, such as in the form of citizens’ assemblies, can help address current democratic challenges including the decline in trust, increased polarisation and disengagement through the creation of participative democratic spaces. These practices engage a randomly selected and representative group of residents in the decision-making or advisory process, learning about the challenges and trade-offs, and coming to recommendations collectively to feed into representative government. Decision-making, responsibility and accountability remain with elected representatives; in this way deliberative processes add strength to, rather than substituting for, representative politics. Localising and institutionalising these methods means reaching more people and creating permanent channels for public engagement. To date, most local assemblies in the UK have been on responses to climate change, but they can be used for budget setting, for broader place shaping, or on subjects determined by participants themselves.

Economic and social benefits and costs

‘Mini-publics’ like citizens’ assemblies are a way of building communities

of democratic citizens, increasing the sense of agency for participants who often go on to greater engagement and participation (and can also help mitigate reduced engagement and efficacy in larger local authority areas). They can provide a counterpoint to polarisation, helping representatives to take difficult decisions and break through on tricky policy issues. They can also address inequalities in power and participation by ensuring a genuine cross-section of the community is involved. Research shows participants leave with increased trust in their political representatives.²²

Fiscal cost

Depending on size and length of time, deliberative processes can cost from £50k at a local level to £1 million+ for nationwide assemblies. Mini-publics are currently often run by external organisations, so institutionalising and bringing skills ‘in house’ in the public sector could reduce the costs over time. Were central government to fully fund a citizen assembly for each English local authority area, the cost would be around £16-£32m per year for the assemblies themselves. A central hub for participatory practice with 5 FTE staff is estimated at £500k per year.²³

Political advantages and risks

Mini-publics are not suitable for all policy challenges, but can help address issues that need longer term thinking, and they can help avoid poorly designed policies that fail first contact with frontline staff or the people affected. In other words, they can avoid the costs of inaction or the costs of wrong action. There are risks that the process is not seen as impartial or representative, but this can be mitigated by ensuring high quality processes and enabling more people to experience and hear about them.

Implementation and timetable

Building a culture of participation is a process and does not necessarily require legislative change. But enabling legislation with a strong central directive and centralised support would be helpful. A central Whitehall department could support other governmental departments and local authorities with advice on best practice and peer learning. Citizen panels could begin immediately to help inform future manifesto positions, ensuring that new policies can command public support or start with a series of flagship national citizens assemblies on major issues. But institutionalisation locally creates more opportunities for long-term participation, connecting to more people and building democratic trust. This would ideally be supported by a centralised department to ensure all local areas can benefit.

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5. Good Growth

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Introduction and rationale

The UK has averaged economic growth of 1.2% a year since the financial crisis of 2008-9. This is the lowest level in the G7, and compares to an average of 2.9% in the previous fifteen years.¹ This year the OECD forecasts UK growth of 0.7%, the lowest in the G7 except for Italy.²

The UK's growth problem reflects its longstanding weaknesses in productivity and investment. Historically around 2%, annual productivity growth since 2009 has averaged 0.7%.³ GDP per hour in the UK is 10-20% below the US, Germany and France.⁴ Total investment in the UK has been the lowest in the G7 since 1980.⁵ At 11% of GDP, business investment is the lowest in the G7 except for Canada. Capital intensity – the value of machines, buildings and intellectual property per hour worked – is around 38% lower than in the US, Germany and France.⁶ The UK's growth has also been very geographically uneven, with many parts of the country very much poorer and less productive than London and the South East, despite (in some cases) recent growth.⁷

Weak productivity growth and investment have both demand and supply side causes. Despite a decade of negative real interest rates, UK output since the financial crisis has been much lower than potential. Austerity, an ageing population and a rising number of working age people not looking for work (partly due to high rates of long-term sickness and disability) have led to a structural deficiency of demand.⁸ This has weakened the incentive for business to invest, and encouraged the shift to low-paid and insecure (and low-productivity) work. The high degree of financialisation of UK companies (the priority they give to financial returns and asset values over long-term growth) is also often cited as a cause of low business investment.⁹ On the supply side, after the financial crisis, the UK experienced over a decade of under-investment in transport infrastructure, housing and workforce training. Brexit is estimated to have cut per capita GDP by 6-8%, investment by 12-18%, employment 3-4%, and productivity 3-4%.¹⁰

Since 2024, the Labour government has sought to reverse some of these trends. It has raised the forecast level of public sector net investment to 2.8% of GDP in 2027-28 (though this is still well below the OECD average of 3.7%).¹¹ It has raised the national minimum wage and introduced new workers' rights, both of which should disincentivise low-paid and low-productivity work. It has established the National Wealth Fund and GB Energy and boosted the British Business Bank to co-invest in business growth, as part of a new Industrial Strategy aiming to promote key sectors. It is seeking planning reforms to encourage new house building and speed up infrastructure build-out. Closer trading ties to the EU are being sought. But while these measures have contributed to a welcome recent rise in business investment,¹² they have not yet been enough to raise the forecast rate of growth. The US war against Iran has raised inflation and stalled the previously expected

reduction in interest rates. The UK is now facing the prospect of stagflation.¹³

Politically, part of the problem is that, even when it has occurred, growth has not resulted in most people feeling better off. In the first place, a rising population has meant that *per capita* GDP growth has been much less than the headline figure (0.3% from 2020-24, for example, compared to 1.1% gross).¹⁴ The distribution of growth has also been skewed towards higher income households, generally concentrated in particular geographic areas, with many lower income households experiencing little or no improvement in their living standards, even before the inflation shocks of the last few years.¹⁵ So there is no guarantee that, even if new government policies could improve the current and forecast growth rate for the economy as a whole, this would result in a majority of people feeling better off. Inflation is eroding people's living standards, and government policy focused directly on the cost of living is more likely to make a material difference than policies focused on medium-term growth.

Because the UK's economic problems are longstanding, and forecast growth rates reflect previous years of under-investment, there is no policy panacea. A range of policies are needed to address different causes.

1. A Good Growth Plan

The concept of 'good growth' championed by Andy Burnham is helpful. It embodies the critical insight that economic growth is not always good. Growth whose fruits go mainly to the already-wealthy is not much use to the majority of the population: experience has shown that little 'trickles down'. Growth which occurs mainly in one or two parts of the country and not others is further likely to create political antagonism and mistrust. Growth which exacerbates climate change and other forms of environmental damage is counter-productive. 'Good growth' can therefore be defined as growth which benefits all income deciles and all parts of the country, and disproportionately benefits lower income households and disadvantaged groups and areas, thereby reducing inequality; and it is growth which is environmentally sustainable, in the sense that it is accompanied by declining emissions and environmental damage, trending towards long-term ecological health and integrity.

Central to achieving good growth thus defined will be an increase in investment levels in the UK economy, both by business and by the public sector. Well-chosen investment increases productivity, and rising productivity generates growth. Within its fiscal rules, the government should be aiming to raise public investment to 3.5 per cent of GDP (close to the OECD average) as early as possible.

Higher public investment will help raise business investment of itself:

it creates demand for a wide variety of goods and services to which businesses will respond. The government can also explicitly co-invest with the private sector through its industrial strategy (see below). But raising aggregate investment is not sufficient to achieve good growth. It needs to be investment particularly in those sectors and parts of the country which will ensure that the benefits of growth are well distributed, and that is environmentally sustainable. This will require both an overall macroeconomic stance, and a wide range of other policies.

The government should therefore produce a 'Good Growth Plan' which can guide policy making across all government departments, and set directions and expectations for the private sector. By reporting on the plan and setting out next steps at the Budget and spring statement, the government could provide a kind of 'fiscal forward guidance' to the markets, and thereby inform and reassure them on the trajectory and stability of policy.

Such a Good Growth Plan should have four principal objectives, with two sub-goals:

- Raising the forecast and achieved rate of economic growth of the UK economy over the next decade, including by
 - Raising the rate of investment as a percentage of UK GDP, including both business and public investment
 - Raising the rate of productivity growth in the UK economy as a whole
- Reducing the gap between the rate of real GVA growth (Gross Value Added) in London and the Southeast and every other nation and region of the UK over the next decade
- Reducing the cost of living and raising average living standards for households in the bottom 60% of the income distribution by 2029
- Reducing the level of unemployment and the number of people of working age not in the labour market, including NEETs, by 2029

A sensible baseline for the latter objectives would be the period from 2010-20 (between the financial crisis and the Covid pandemic, when average annual growth was consistently below pre-2008 levels).

To achieve these objectives the plan will need at least ten main sub-strategies:

- (1) A **fiscal strategy** aimed at reducing the rate of inflation, and when this has been achieved, at expanding demand in the economy in a non-inflationary way

- (2) An **industrial strategy** focused not simply on supporting the UK's leading export sectors (as presently), but on raising productivity in the rest of the economy, including through the wider take-up of AI and robotics, and on ensuring that other areas of policy, including energy and defence and government procurement, raise employment and create economic opportunities throughout the country
- (3) A **financial strategy** aimed at getting a larger proportion of UK savings and pensions invested in British and British-based businesses
- (4) An **employment strategy** aimed at getting significant proportions of working age adults, including NEETs, into the labour market, including through improved childcare opportunities, better employment and mental health support, raising overall skill levels and improving earnings and working conditions
- (5) A **devolution strategy** aimed at empowering combined and strategic authorities in England to take more charge of regional economic policy, including through fiscal devolution, with a focus on key local outcome indicators such as the health of high streets, skills and local transport services
- (6) An **infrastructure strategy** aimed at accelerating the build-out of homes and infrastructure, including the more rapid electrification of energy consumption, the reduction of business energy costs and the improvement of transport outside London and the Southeast
- (7) A **migration strategy** aimed at recruiting scientists and those with highly productive skills from the US and elsewhere, and of filling shortages in key parts of the labour market
- (8) A **competition strategy** aimed at breaking up or otherwise regulating the behaviour of dominant market players in key sectors, including utilities and digital platforms, with the twin objectives of encouraging innovation and reducing prices
- (9) A **tax reform strategy** aimed at aligning the tax system with the above overall economic objectives, including through equalisation of income tax rates on labour and capital, the reform of land and property taxation, and overall simplification, particularly of marginal income tax rates and corporation tax reliefs and allowances
- (10) A **trade strategy** aiming to achieve closer integration of UK and EU markets in a widening set of sectors, with the possibility of re-joining the Single Market as a medium-term objective, along with the negotiation of EU-aligned trade agreements with other countries.

Other chapters in this document offer policy proposals in many of these fields.

Andy Burnham has announced that responsibility for the government's growth strategy will rest with the new No 10 North office in Manchester. But physical location is not the key factor for success. The more important reform needed is a change in the relationship between

the Treasury and the Prime Minister's Department, and the other ministries with a key role in promoting growth.

As Burnham has noted, the twin responsibilities of the Treasury for growth strategy and for the public finances have long been a source of criticism: it is claimed that the latter tends to inhibit innovation and ambition in the former.¹⁶ But Burnham has not said that he intends to strip the Treasury of its growth functions and turn No 10 North into a fully-fledged new department (such as on the lines of the ill-fated Department of Economic Affairs under the first Harold Wilson government). So the key issue is how the Treasury, No 10 and the redesigned Department for Business and Trade work together, along with the growth-related ministries of Housing, Communities and Local Government, Work and Pensions, Net Zero and Energy Security, Transport and the Home Office.

This will require them to collaborate in new ways. Rather than the standard model, in which responsibility for different sub-strategies rests with individual departments, with other departments then responding to it through cabinet committees, joint teams should be created for each sub-strategy and its specific set of objectives. These teams should be led by officials from the main responsible department, but should have seconded staff from other relevant departments, including the Treasury, with the task of developing inter-departmentally agreed and coordinated policy. Under the last Labour government this kind of structure worked extremely well to develop cross-Whitehall policies and programmes in the Office of Climate Change. The aim is to avoid some of the tensions which have long plagued relations between the Treasury and other departments.

There is also an important need to coordinate economic policy with public institutions outside of government, including the Bank of England, the devolved nations of the UK and combined and strategic authorities in England, the National Wealth Fund and British Business Bank, and economic advisory bodies such as the Office for Budget Responsibility, Low Pay Commission and Climate Change Committee. Creation of an Economic Policy Coordination Committee, as proposed in a recent Fabian Society report, would not compromise the independence of such bodies, each of which would retain its statutory mandate, but it would enable better understanding of one another's analysis, priorities and strategies, and improve the overall coordination of economic policy making.¹⁷

2. Reducing inflation

The government's room for manoeuvre in macroeconomic (fiscal and monetary) policy is severely constrained. The existing fiscal rules limit the amount of borrowing which the government can do, both for current and investment spending. Low growth means that there is little

‘growth dividend’ to bring in higher tax receipts and reduce the debt-to-GDP ratio.

Yet it is inflation, not the fiscal rules, which is currently the primary constraint on economic policy making. The UK inflation rate is both above the Bank of England’s 2% target and higher than in many other European countries. This is the main reason why UK bond yields are higher than in other countries. (The others are that the UK has a lot of overseas bondholders who are particularly sensitive to international trends, and bond markets have some residual uncertainty about the stability of UK policymaking since the Truss ‘mini-budget’ episode and the rapid turnover of Prime Ministers and Chancellors in recent years.) The Bank of England’s base rate is currently 3.75 per cent, and British 10-year gilts stand at around 5%. These compare with the ECB’s base rate of 2.4%, and yields of 2.5-3.8% for major European country bonds. Higher than target inflation means that the Bank of England cannot currently reduce interest rates, despite weakening demand in the economy. Inflation is likely to rise in the coming months as the prolonged effects of the US war on Iran continue to feed through.

Among economic policy makers and commentators, inflation policy is seen as solely the responsibility of central banks, not governments. Governments, it is believed, should use fiscal policy only to fund their spending commitments, within any fiscal rules on deficit and debt management they adopt. In normal circumstances this is an appropriate division of labour. But when the inflation rate is high, governments are not powerless to act on it.

They have a number of options. One is simply to cut VAT rates on products which are significant within the Consumer Prices Index (CPI), as the Burnham administration has already done for electricity. If it so chooses, the government can also spend public money to reduce prices in sectors it regulates, such as energy, water and transport. In other sectors it can regulate to hold prices down – in areas such as private sector rents and water. And it can in principle seek to persuade price-setters, such as supermarkets, to keep certain prices lower than they might otherwise be.

If measures such as these are successful in reducing prices (either absolutely or relative to what they would otherwise be), they can reduce the cost of living experienced by households, particularly those on lower incomes. But they can also, if sufficient in effect and scale, reduce CPI, the measured inflation rate. This will have much wider economic consequences, because it will reduce the likelihood that the Bank of England will raise interest rates, and will at the same time put downward pressure on gilt yields (which are responsive both to the UK inflation rate and to the Bank’s base rate). Both of these will give the government more fiscal space for spending and (if necessary) borrowing.

For this reason, measures to reduce the cost of living should focus on prices, not incomes. The government could spend the same amount to support incomes (for example through benefit increases). This might have the same impact on the cost of living, but it would not affect the measured rate of inflation, and would therefore not have the wider economic benefits.

We have experience of government action reducing the measured rate of inflation. The Conservative government's Energy Price Guarantee (EPG), which ran from October 2022 to (effectively) June 2023, was a price, not an income, intervention. The ONS therefore adjusted the UK's headline inflation rate in response, which it did not do for the previous income subsidy, the Energy Bills Support Scheme. It estimated that the EPG, which cost around £23bn, reduced the overall inflation rate by approximately 2.7 percentage points in the months following its introduction. (Without this intervention, inflation would have spiked closer to 11.8% in October 2022 rather than the recorded 9.6%.)¹⁸

Using government policy measures to reduce the CPI will be controversial among mainstream economists. Many will argue that it is a 'sticking plaster' approach, which does not deal with the underlying causes of inflation.¹⁹ (They will also note that the expenditures involved are likely to become permanent: it is hard to raise a VAT rate once reduced.) But this misunderstands the dual character of inflation. Inflation is indeed (as such economists will argue) the result of a mismatch of supply and demand in the economy as a whole. But it is also a specific number, the CPI, compiled by the ONS as a statistically representative reflection of overall price changes in the economy. It is to the CPI that the Bank of England responds; it is also against the benchmark of the CPI that firms, public sector pay bodies and trade unions make wage settlements. So if government policy cuts the CPI by reducing some of its key component prices, this will directly affect inflationary pressures (supply and demand) in the wider economy.

Two specific methods by which the government could reduce key prices in the CPI – electricity and rent – are set out in the Cost of Living chapter in this report. Methods of paying for these measures through targeted tax rises – notably the equalisation of the rates of capital gains tax with those of income tax – are set out in the Taxation chapter.

3. A balanced budget stimulus

Getting inflation down should be the new government's first macroeconomic priority. High inflation hurts households, particularly those on the lowest incomes; forces the Bank of England to keep interest rates high; and raises borrowing costs, thereby making investment more expensive. But once inflation is back on trend to target, the government's focus should be on seeking to stimulate consumer demand to raise the short-term growth rate. Although in the

long term it is investment which will raise the UK's sustainable level of growth, it needs to be supported by addressing the present demand deficiency in the economy. Getting the short-term growth rate up without raising inflation will bring greater confidence to business and bond markets, and help encourage long-term investment.

Contrary to much media commentary, there is some scope for more borrowing within the current fiscal rules. We discuss this in the next section. But investment in income-generating assets, which this would need to be, is unlikely to generate much short-term growth. All investment creates demand for investment goods (from machines to architects and consultants), but the deeper benefits to demand are slow to come through, as the Starmer government sadly discovered. If the government wishes to stimulate economic growth in the short term it will need to implement, rather, a 'balanced budget stimulus'.

This is a fiscal policy package in which spending and revenue are raised by the same amount, so not increasing the deficit; but in such a way as to encourage greater spending in the economy. Any balanced budget has some stimulatory effect, but it can be most effectively achieved by raising taxes on high income and wealthy households, and cutting them on lower income households. Since the latter spend more of their income than the former, a fiscally neutral package of this kind would raise consumption in the short term and stimulate short term growth.

There are a variety of ways this could be done. In the Taxation chapter of this report, a number of changes to the taxation of wealth and assets, and the income derived from them, are set out. These could be matched by increases in benefit levels to provide benefit recipients with closer to a living income (as set out in the Welfare and Employment Support chapter); further reductions to the first tranche of energy prices or VAT on essential goods; combining income tax with National Insurance and smoothing the marginal tax rate;²⁰ or other spending measures targeted at those on low incomes.

Ending the indemnity under which the Treasury pays the Bank of England for the losses it has incurred under Quantitative Easing (QE) is another way of creating fiscal space for a non-inflationary growth stimulus. This is discussed further in the Fiscal and Monetary Policy chapter in this report.

4. Public development corporations to build infrastructure and housing

Context and current policy

As Chancellor, Rachel Reeves changed the measure of public debt which the government targets to Public Sector Net Financial

Liabilities (PSNFL), which takes account not just of the liabilities created by borrowing debt but of any income-generating financial assets thereby created: the value of these is netted off against the additional borrowing. This means that the government could expand borrowing for its so-called ‘public financial institutions’ (PuFins) which specifically lend money to create or expand such assets: the National Wealth Fund, British Business Bank, UK Export Finance and National Housing Bank. The constraint on borrowing here is not the fiscal rule on debt, but the rule that current spending must be paid for out of taxation: higher borrowing would incur higher current debt interest costs. The Resolution Foundation has suggested that, in its budget in October 2026, the government could afford around an additional £9bn in borrowing for such purposes, a figure which would bring PuFin investment back to the level (as a percentage of GDP) provided by the European Investment Bank before Brexit.²¹

This should be done. But it is not the only way to increase productive public borrowing within the current fiscal rules. (Whether and how the fiscal rules could sensibly be changed is discussed in the Fiscal and Monetary Policy chapter. For the purposes of this chapter, however, they are taken as given, in line with the Prime Minister’s and Chancellor’s commitments.) Another way would be for the government to create, or encourage the creation of, Public Development Corporations to develop land for infrastructure and housing.

A major plank of the Starmer government’s growth strategy was to accelerate the planning process for major infrastructure projects. A ten-year Infrastructure Strategy was accompanied by the establishment of a National Infrastructure and Service Transformation Authority (NISTA) to integrate infrastructure policy, strategy and delivery.²² At the same time ambitious housebuilding targets have been set, including for the development of new towns. But the government’s approach to infrastructure and housing financing – through public-private partnerships which effectively underwrite the profits of private investors and asset managers – is expensive and slow. The National Audit Office (NAO) has been highly critical of the experience of previous private finance initiatives (PFIs), finding that they had much higher costs than their publicly-funded equivalents, both in the estimates of construction prices and in financing costs. The latter have been typically 2-3.75 percentage points above the cost of UK gilts, while the returns to equity holders have often been excessive. Yet the NAO has found little evidence of operational efficiency in managing assets once built. The head of the NAO, Gareth Davies, has warned the government about the risks of repeating these mistakes.²³

It is widely acknowledged that new housing needs to be built where there is transport, water, energy and other infrastructure able to service it. Such an infrastructure-led approach was recommended by the New Towns Taskforce,²⁴ and could deliver the scale of investment and council housing desired by the new administration. But this will not

be possible if the government continues to rely on using large public subsidies under a public private partnership (PPP) approach. Not only is there insufficient grant funding to subsidise the private sector, but by the Treasury's own admission, this approach cannot deliver at the necessary scale or speed.²⁵ Such a model would see housing delivered at a rate four times slower than a public-led model, and with significantly lower levels of social housing.

A critical point to note here is that new 'council' homes, as Andy Burnham has called for, do not have to be built by councils themselves. They can be built by other public bodies and then sold to local authorities to manage. The point of council housing is the tenure and rent levels it offers to tenants, not who builds it.

Proposed policy

The government should establish, with combined and strategic authorities, specific-purpose Public Development Corporations (PDCs) to plan and build integrated infrastructure and housing projects around the country which have been approved by both NISTA and the relevant local authority. It should use Section 190 of the Levelling Up and Regeneration Act 2023 (LURA) to help pay for such projects. LURA permits a public authority under certain circumstances to acquire land at values close to existing 'use value', ignoring the prospect of planning permission in valuing the compensation to be paid to the existing landowner ('hope value'). This power is transformative for public financing. Once the infrastructure is built and planning permission is granted, plots can be sold to housebuilders at higher values. This increase in land values was used to fund the wave of post-war new towns, as well as many new European urban extensions in recent years. Privately financed and siloed projects will struggle to realise any gains from land value capture, which it is estimated could otherwise release over £200bn over the next 20 years.²⁶

PDCs are independent self-governing public bodies. They should be governed by a board drawn from the relevant combined or strategic authority and national government, and independent members with experience in regional and local business and civil society. Other directors should have commercial land development expertise. PDC boards need to be independent but also seen to be locally legitimate.

Instead of trying to develop complex and costly new PFI arrangements, development corporations can raise finance directly from the capital market, while contracting out the delivery of the infrastructure and housing. These projects will require the same level of detail as is the case for PFI-style projects to attract private investors to buy the bonds. But they will be significantly cheaper than PFI, both from the significantly lower cost of public capital and the fact that there is no need to 'guarantee' a profit to private equity providers. The key to success is to integrate housing, transport, utilities, green spaces

and local amenities at scale and to use long term public corporation debt (40 or 50 years) to finance the project. This solves the 'maturity mismatch problem' where such projects typically have high short-term costs but longer-term revenue streams. It is a method which was widely used to build the UK's infrastructure from the 19th century onwards and has been copied in the last half century all over Europe.²⁷

Once the infrastructure has been built and planning permission awarded, serviced land plots would then be sold to developers, allowing the development corporation to capture the full increase in the uplift in land values. This model reduces risks for developers and hence will bring more small and medium sized developers into the market, as planning risk has been removed. It also enables a far higher proportion of social rent homes to be delivered, given the much higher level of planning gain captured than via other routes such as obligations under section 106 of the Town and Country Planning Act or the Community Infrastructure Levy.

When the revenue stream from the land value uplift is supplemented by other revenue streams – including social housing receipts, a portion of transport receipts, car parking receipts and business rates – the risk of the project falls considerably. Moreover, as the development corporation is self-funding the project, upfront plans must be detailed, with care given to avoiding costly and unnecessary design components.

Borrowing for such projects will be public, but should not be classified as 'government'. In classifying public debt the Office of National Statistics (ONS) is required to ascertain the sources of funding for any debt issued by a public body. So long as new PDCs only develop projects relying on market sources – such as the sale of serviced plots with planning permission, rental income and track charges – they should be classified as public but not government. This would exclude them from the current expenditure fiscal rule. The definition of PSNFL (used for the debt rule) would need to be changed, or a new measure defined, to allow the inclusion of commercial land assets as well as 'financial' ones. (This could perhaps be considered a form of 'flexibility within the fiscal rules', as the Chancellor is seeking.)

It might be objected that 'public borrowing is public borrowing' and gilt markets will not be fooled by a different form of it: more borrowing will still push up gilt yields. But this is to misunderstand the nature of debt markets. Public corporation debt is a different asset class from sovereign bonds, with a different pool of creditor capital. Indeed public corporation debt is in particular demand from investors, because it has low-risk and long-term returns. So higher borrowing by such corporations would not cannibalise the gilt market; it would attract different lenders. The UK is indeed one of the few advanced economies without a deep public corporation bond market. This is partly because we do not have many such corporations; but also because the UK is unusual in including self-funding public corporation debt within its fiscal

rules. Other European economies use the framework developed by the fiscally conservative Bundesbank for the 1992 Maastricht Treaty, which treats self-funding public corporation debt as off-balance sheet. Germany, the Netherlands and Sweden all issue a significant amount of public corporation debt, leading to much lower sovereign debt issuance and a lower cost of borrowing. The UK diverged from this model during the 1970s when financial power was centralised in the Treasury and taken away from local authorities; the new administration's devolution drive creates the opportunity to revive the public development corporation approach.

Economic and social benefits and costs

Using public development corporations and LURA will both reduce the cost and speed up the process of building homes, transport and other forms of infrastructure, in integrated projects meeting the criteria of local and subregional plans. Some current projects, such as the Old Oak Common to Euston and Birmingham to Manchester HS2 lines, could potentially be integrated with housing along their length and at their termini. Infrastructure and housing projects are important sources of local employment, and publicly-developed projects can use domestic content procurement policies to ensure that they create demand for UK firms. Such projects will provide immediate employment in the construction sector for young people all over the country for whom the government plans to provide training and apprenticeships.

Fiscal cost

As public development corporations will sell bonds on the basis of their land values they will not fall onto the government's balance sheet, so the cost to the public purse will be limited to their establishment costs.

Political advantages and risks

The slow build-out of announced infrastructure and housing projects is a major source of public and business frustration with the government. The UK's most successful periods of building and regeneration were led by public development corporations funded by land sales, in the postwar New Towns and later in Docklands and the London Thames Gateway. The memory of these can be invoked to win public support - though this time with majority local control. The major risk is of further delay to existing projects while PDCs are established.

Implementation and timetable

Public development corporations and their borrowing and land value capture powers need to be established in legislation. It may be possible to use a single Act to create several PDCs at once. The first few of these could potentially be established before the next election.

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5. Building British businesses: widening the scope of industrial strategy

Context and current policy

Arising in large part from the UK's world-class universities, the British economy has significant strengths in key fields of technological innovation and growth, such as engineering biology, advanced materials, robotics, life sciences, optical semiconductors, photonics, quantum, space and artificial intelligence. But the UK has been bad at turning its thriving start-ups into global businesses. Over the ten years from 2011 to 2021 it is estimated that 1200 British start-ups were sold to overseas buyers, with an average loss to the UK economy over a decade of \$5 billion. By 2026 the cumulative loss of economic value will approach \$1 trillion.²⁸

This reflects a wider weakness in the UK's growth model. Britain has the largest venture capital industry in Europe, but very little of that capital comes from British institutions. It tends to avoid new technological sectors, is highly cyclical, and disengaged from Britain's regions outside London. British banks and financial institutions continue to prioritise financing property and existing assets, often overseas, rather than building businesses and industries at home. Pension funds invest less than 5% of their assets in UK public equity, and even less in venture capital funds.²⁹ Meanwhile, ordinary small and medium sized businesses in the 'foundational' or 'everyday' economy (such as construction, retail, light manufacturing, services and distribution), struggle to adopt new technologies, such as AI and robotics, leaving their productivity lower than their peers in comparable economies.³⁰

The government's industrial strategy, focused on eight key sectors, goes part of the way to addressing these issues. It has established the National Wealth Fund and GB Energy and boosted the British Business Bank to co-invest in business growth. As Chancellor, Rachel Reeves

began the process of consolidating the UK's many small pension funds into a smaller number of larger 'superfunds' capable of investing in riskier equity propositions, and agreed a quasi-voluntary pact with the major pension funds to increase their investments in British companies.

But neither of these processes is yet on the required scale. The restrictions placed on the National Wealth Fund and British Business Bank by the Treasury, notably the prevention of concessional lending, severely restrict the investments they have been able to make, with persistent concerns about 'additionality': whether they are really enabling investments that would otherwise not have been made. Perhaps even more importantly, the industrial strategy is focused just on the eight key sectors. These are important for UK exports and to keep the UK at the technological frontier; and many of them sit at the head of long supply chains which extend across the UK economy. But in themselves they represent a small proportion of overall UK output and employment, and they are already the sectors with the highest productivity. If wages are to be raised in the rest of the economy, focus needs to extend beyond these sectors.

Proposed policy

The government's industrial strategy should be rewritten to focus on building successful and higher-productivity British businesses right across the economy and country, including in foundational or everyday sectors, and not just in the eight leading sectors currently identified.

A revised industrial strategy of this kind could have at least seven new or expanded policy elements:

Devolution

The government has already set out its initial plans for a significant devolution of economic powers and responsibilities to combined and strategic local authorities in England. These authorities should have the primary responsibility for devising an appropriate industrial or good growth strategy for their areas, focused on existing economic strengths, seeking to utilise the research specialisms of local universities, and matching the skills of the local workforce to the creation of new employment opportunities.

A helpful model for this has been produced by the East Midlands Combined Authority and the RSA, published in the report of a commission of enquiry chaired by former Bank of England Chief Economist Andy Haldane.³¹ Harnessing a partnership between the combined authority, local employers and the education and training sector, its aim was to identify the place-specific opportunities for employment growth in the sub-region. It includes a 'youth ambition' for all children to have guaranteed careers advice, work experience and mental health support from primary school onwards; promotes a

‘Good Employers Charter’ under which businesses will receive support to grow in return for more inclusive business practices; emphasises the economic importance of local transport that links people to job opportunities, affordable housing near to jobs, and support for people to find and sustain work; and seeks to back social entrepreneurs and community groups with funding for local economic and community social development. There is considerable potential for such local industrial or good growth strategies to draw on both devolved and central government resources, including in the latter case the National Wealth Fund and British Business Bank.

The National Wealth Fund and British Business Bank

The National Wealth Fund (NWF) and the British Business Bank (BBB) are the UK’s two principal government policy banks. The NWF is focused principally on infrastructure, the BBB on start-up and scale-up businesses. Both were established under the Conservative Government, but the NWF was renamed and given a revised mandate and larger injection of capital by the Labour government following the general election in 2024. The NWF is focused on accelerating investment into the UK’s clean energy system and emerging clean energy industries, accelerating place-based investment across all four nations of the UK, and strengthening ‘sovereign and strategic capabilities’ in national security, ‘industries of the future’ and domestic supply chains for growth and resilience. The BBB provides loans to and equity investment in growing businesses in many different sectors. Both aim to use public investment to ‘crowd-in’ private capital, particularly where investment is perceived as too risky for private investors.

These two institutions are working reasonably well, and gradually scaling up their investment outlays. But they have three major failings which the new administration could tackle.

First, they are too small. This is particularly true of the NWF. With £27.8bn of capital to be invested over a nine-year period (of which a little over £8bn had been deployed by the end of 2025), the NWF is much smaller than its longer-standing comparators in France (the Banque Publique d’Investissement or Bpifrance) and Germany (the Kreditanstalt für Wiederaufbau, or KfW), each of which invests roughly 1% of their country’s GDP.³² An NWF on the same scale would be investing £21bn per year by 2030, almost four times its current investment limit.³³ That should be the government’s aim. There is also scope for the BBB to expand its lending and investment capacity.

Second, neither NWF nor the BBB borrow from the capital markets on their own account. Unlike their major comparators in other countries, these institutions do not issue their own bonds, but are dependent on transfers from the Treasury, financed by general government borrowing. This makes them more like government agencies than proper banks, and means that their lending is effectively constrained by

the government's fiscal rules. Although borrowing for themselves might come at marginally higher cost than general government borrowing, it would tap into new pools of capital (beyond the gilt markets), so reducing the pressure on gilt yields. In practice this would make the government spending more efficient, effectively adding an extra private finance leverage ratio at the fund level (in the KfW's case, this is 14:1) to add to the 2.5-3:1 leverage ratios that the NWF and BBB seek to achieve on a deal-by-deal basis. This is the way the world's major public investment banks, from the World Bank to the European Investment Bank, all operate. As for them, giving the NWF and BBB access to capital markets would greatly expand their investment capacity.

Third, both institutions need to be freed from the Treasury's insistence that they are 'lenders of last resort' which can only make investments which the private sector would not have done.³⁴ While there is a risk that the NWF and BBB could crowd out private sector investment and therefore not in practice provide 'additionality' in their overall impact, this insistence fails to take account of their ability, through risk sharing, to lower overall project financing costs, including for the private sector. A more proactive investment approach would, for example, allow the NWF to invest in proven, lower-risk technologies where scale-up is needed for the clean energy transition, such as home retrofit and heat pump manufacture. Providing financing to more proven technologies could also help the NWF to balance risk and returns across its portfolio, potentially enabling greater risk-taking or concessionary rates elsewhere. The NWF could also take more equity stakes in the companies it finances, as the BBB does, thereby enabling it to reap greater rewards from its successful investments.

Pension fund consolidation and tax relief

The previous administration aimed to facilitate the consolidation of pension funds to create at least a dozen superfunds of £50-100 billion in size by 2028. This would, they hoped, create financial institutions large and focused enough to generate a 'paradigm shift' in their rate of investment in the UK – in private equity, infrastructure and scale-up businesses. Models for this include the creation of Australia's and Canada's superfunds, but many other countries have taken similar action for this purpose. It is believed that consolidation will drive down costs and allow investment in a wider range of assets, and enable the use of reserve powers to direct investment into UK assets.

Alongside consolidation, the government could use the tax relief system to incentivise pension fund investment in UK publicly quoted equities. For example it could require a minimum threshold, such as 12.5% of total public equity holdings, for a fund to qualify for pension fund tax relief. It could also provide scale-up reinvestment relief from capital gains tax, as in Sweden, when investment gains are reinvested in British scaleups. With its existing experience in the sector, the British Business

Bank should be tasked with coordinating the expansion of venture fund capital deployment.

Public procurement and corporate supply chains

The new administration has already announced the simplification of public procurement rules, designed to focus procurement on firms which provide training and apprenticeships for young people. In general there is much greater potential to ensure, not just that public procurement supports British-based firms, but that UK companies are encouraged to do the same. In the US, Japan and Germany large companies typically sponsor, give orders to, and take stakes in, young scale-ups in their supply chain. The New Labour government introduced tax incentives for corporate venturing of this kind, but these were scrapped by George Osborne. They should be redesigned and reintroduced, and such ventures could also be included in public procurement guidance. Sweden's Ignite Programme provides a useful model.³⁵

Sectoral collective bargaining on AI and new technologies

AI, robotics and related automation technologies will raise productivity in many sectors, but they also risk reducing the number of jobs, with some types and levels of job particularly vulnerable. There are different estimates of the risks, and on whom they will fall, and job vacancies are affected by many different factors, but it is already clear that some jobs are more vulnerable than others.³⁶ Although AI and automation may increase the number of jobs overall, with new jobs in the sectors supplying the technologies and as productivity improvements feed through into higher overall demand, the immediate sense of loss and grievance in sectors where jobs are being lost is likely to be acute, particularly if the benefits are seen to accrue to firm profitability rather than workers' wages and salaries.

One way of addressing this is to establish sectoral collective bargaining processes³⁷ – or 'fair pay agreements'³⁸ – around the use of new technologies in those sectors where the job impact may be high but where the number of firms makes firm-level negotiation difficult. Parties to the negotiation would be industry associations and trade unions, and where appropriate government, whether national or sub-regional. Bargaining might seek to establish agreed guidelines for the introduction of new technologies, aiming to boost productivity but also ensure that a reasonable proportion of the fruits are shared with workers, and that displaced workers get time and resources for retraining and redeployment. The carrot for employers to take part might be various levels of government support through industrial strategy programmes. Trial processes in key sectors, such as retail and construction, might be implemented in the first instance.

SME productivity

Getting small- and medium-sized enterprises to improve their productivity – for example through the adoption of AI, robotics and other advanced technologies – is difficult: SMEs can be hard to reach and their sheer number makes central government programmes often ineffective. Highly tailored approaches tend to be needed. The ‘Be the Business’ initiative was established in 2017 as a business-led programme to support small- and medium-sized businesses in all sectors to improve their productivity through such approaches.³⁶ Though successful in relation to the firms it has reached, it remains extremely small, with an annual turnover of around £5m, and is no longer in receipt of a central government grant. There seems scope for combined and strategic authorities to work with the Be the Business network to establish SME productivity improvement programmes in their own areas.

Young entrepreneurs

In the 1980s and 90s, the Enterprise Allowance scheme introduced by the Conservative government provided part-time employment and self-employment opportunities for young unemployed people. Many young entrepreneurs, musicians and other artists got a chance to develop their businesses and talents through the scheme, at little additional cost to the Exchequer over and above the unemployment benefit they would otherwise have been receiving. A similar scheme today could provide similar opportunities for the current generation of young entrepreneurs and artists. They could be supported by local authorities in disadvantaged towns and neighbourhoods offering them otherwise closed shopfront and commercial properties on a rent-free basis to help them develop their business and creative ideas. This would help ensure that town centre shops and other properties currently contributing to a sense of decline in many places once again become places of economic activity and opportunity.

Economic and social benefits and costs

The economic benefits of a wider industrial strategy should be felt in new jobs and incomes throughout the country, and stronger growth at a macro level. In disadvantaged areas in particular, new businesses and jobs can create a sense of renewal and hope which can contribute to wider social cohesion and political trust.

Fiscal cost

The National Wealth Fund and British Business Bank will need recapitalising in due course, but this is a medium-term, not an immediate, cost. The other policies could be funded at different levels, with relatively modest costs (under £100m) possible.

Political advantages and risks

Having promoted his political project as ‘business-friendly socialism’, the new Prime Minister needs to ensure that the government’s actions live up to his rhetoric. A problem of the current industrial strategy, focused on just eight sectors, is that it is not visible to the majority of voters or businesses in most places. A devolved industrial strategy which helps create jobs and other economic opportunities locally is more likely to foster trust in government.

Implementation and timetable

Most of these policies could be introduced without legislation through ministerial and departmental policy changes, within the next three years. Allowing the National Wealth Fund and British Business Bank to borrow on the capital markets would however require new legislation.

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6. Fiscal and Monetary Policy

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Introduction and rationale

The UK's macroeconomic policy framework is not fit for purpose. The government's pass-fail fiscal rules, adjudicated by the Office for Budget Responsibility, unhelpfully constrain the Chancellor's decision-making. The Bank of England is effectively undermining the government's fiscal efforts through its bond sales and the costs arising from quantitative easing. Inflation arising from an external price shock cannot be addressed solely through interest rate policy.

Tweaks to the fiscal rules and Bank of England operations, and a willingness to consider direct interventions on prices (notably in energy), have opened up some room for additional government investment spending and other policies. Yet these changes do not go far enough to overcome the self-imposed constraints of the current framework.

The current mandate of the Office for Budget Responsibility has become a serious barrier to progressive macroeconomic policy. Its forecasts, derived from its very particular macroeconomic model, are the sole arbiter of whether the Chancellor's fiscal rules have been met. This is doubly problematic. No single forecast should have such a determining power over current fiscal policy: as macroeconomic forecasts are volatile, policy becomes volatile. And the OBR's modelling assumptions are by no means universally shared among economists.

Since Liz Truss's 'mini-budget', fear of the bond markets has paralysed the government's ambitions to make wider macroeconomic policy changes. With yields on 10-year gilts around 5% (100-200 basis points higher than most other European economies), and annual interest payments on UK debt around £100bn, there is good reason to be cautious about increasing government borrowing. But bond markets are not only looking at the current budget deficit; they want to be reassured that in the medium term there will be stronger growth, lower inflation and lower interest rates. They are therefore interested in the nature of borrowing – will it conflict with or support growth and inflation targets – and in the likely path of interest rates set by the Bank of England.

This allows a number of changes to the fiscal framework to be made without excessive fear of an adverse bond market reaction, so long as the framework provides certainty and transparency. Coordination between the Treasury and Bank of England – a change in approach in itself – will be important. Presented carefully, the measures outlined below should enable the government to increase spending by c£20-30bn a year over current plans without having to raise taxes and without triggering an increase in yields.

This will be especially the case if the UK falls into persistent stagflation

(and potentially recession) in 2026-27. Under those conditions there will be a strong case for a moderate fiscal stimulus, particularly if continuing inflation means that the Bank of England does not reduce interest rates.

1. Redesigning the fiscal framework

Context and current policy

In one of its first acts of government in 2024, Labour introduced the fiscal lock, ensuring major tax and spending decisions could not avoid Office for Budget Responsibility (OBR) scrutiny. In October 2024, the fiscal rules were changed to better account for the government's ownership of financial assets—opening £21.5bn of fiscal headroom at the time.¹ The Chancellor has committed to a single fiscal event per year. While those changes have helped bolster credibility and unlocked space to invest, there remain large shortfalls in public investment.²

Proposed policy

The government should change the fiscal framework in the following ways. (These are based on proposals made by the New Economics Foundation,³ and Institute for Fiscal Studies.⁴)

- Replacement of the present pass-fail fiscal rules with fiscal standards/principles like those used in Australia,⁵ and New Zealand.⁶
- The OBR's judgement of these standards and other indicators of fiscal sustainability to be published using a 'traffic light' system and commentary on each standard and indicator.
- The OBR's judgement to be advised by a Fiscal Policy Committee made up of respected economists.
- Restoration of a forecasting function to the Treasury, with the Treasury's forecasts the subject of OBR assessment. This could potentially be formalised by turning the OBR into an Office for Fiscal Transparency.⁷

Restoration of the Treasury's macroeconomic forecasting function would allow some of the OBR's modelling assumptions to be challenged, supported by the assessments of the Fiscal Policy Committee. Challenges can be made to the OBR's very low estimates of fiscal and investment multipliers, its assumption that the economy reaches full capacity within the forecast (such that any demand stimulus is ineffective after five years and likely to be nullified by the Bank of England raising interest rates) and its non-assessment of the fiscal savings associated with preventative spending policies, for example in

healthcare and social housing.⁸ The evidence is that public investment often returns higher economic benefits than the OBR assumes.⁹ The OBR would be at liberty in its assessment to question HMT's assumptions, but equally HMT would be able to challenge the OBR's. This would represent a healthier approach to economic assessment than the current 'monopoly of wisdom' held by the OBR.

Economic and social benefits and costs

These changes would move away from the present fixation with 'headroom', which cannot be simply calculated from fiscal standards. But it would not automatically create extra space to borrow. This will depend on the Chancellor's ability to articulate a strategy that reassures markets that growth will improve and inflation and debt will be controlled. For example, if the Chancellor could convince markets of a more optimistic view of the impact of public investment on the economy—for example, aligned with the upper-end of IMF estimates,¹⁰ rather than the OBR's scoring—he would now have £15.6bn extra fiscal space.¹¹

Political advantages and risks

The obvious risk is that these reforms would be seen by economic commentators and the markets as ways to loosen the constraints on the government's commitment to 'fiscal responsibility', which could lead to a premium on borrowing costs or a deeper loss of confidence in fiscal policy making. Therefore, building an evidence base with gradual increases in spending that pay off can help justify more borrowing in the future.

Implementation and timetable

Changes to the fiscal rules can be done without legislation: they require only that the Charter for Budget Responsibility is updated. Wider changes to the OBR's mandate will require legislation to amend the Budget Responsibility and National Audit Act. This could be done within the present Parliament. But given the risk that any changes would be seen as an abdication of 'fiscal responsibility', it might be sensible to establish first a Fiscal Commission of economic and financial experts and stakeholders to examine how other countries achieve fiscal credibility, and to make recommendations, as proposed by the TUC.¹²

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2. Stopping Bank of England bond sales

Context and current policy

Roughly 15% of all government bonds entering the bond market until 2030 will be sold by the Bank of England. These sales have added 0.15-0.25 percentage points to interest rates, according to Bank of England calculations.¹³ At a time when bond markets are particularly sensitive and interest rates are already high; this is clearly not helpful to the government's fiscal strategy. While the Bank of England has decided to slow sales recently, easing some pressures, this could go a lot further.

Proposed policy

Following the example of other central banks, who do not plan to sell bonds at all, the proposal is to prevent the Bank of England selling gilts. Rather, it would be required to hold on to them until maturity. This could help avoid large costs.

Economic and social benefits and costs

The Bank of England is selling government bonds as part of Quantitative Tightening (QT), the reverse of Quantitative Easing (QE). To reduce the size of its balance sheet it sells gilts to the bond market. In doing so it competes with government sales – adding upward pressure on interest rates. In other countries, central banks simply let the government bonds they own mature, extinguishing them from their balance sheet without having to add pressure to bond markets.

In the past three years, the Bank of England estimates that the 0.15-0.25 percentage point increase in interest rates caused by this policy has meant an additional interest cost of £16bn over the lifetime of the bonds sold.¹⁴ Other estimates are higher, perhaps up to £60bn.¹⁵ Avoiding these costs by slowing sales or stopping them entirely could therefore unlock significant savings. Given bonds can last up to 50 years the yearly saving may be small (under £1bn a year) but the total expected saving could be used to justify upfront one-off spending measures like cost-of-living packages or capital investment.

The Bank of England argues that the government bonds it bought under QE need to be sold because of their longer-term nature, since otherwise some bonds would stay on the central bank's balance sheet till 2070.¹⁶ But other central banks hold long-term bonds, which can often be a source of long-term income.¹⁷

It should be noted that, in the current fiscal framework, slowing or stopping Bank of England sales may reduce the Chancellor's available headroom.¹⁸ This is because the OBR does not model the impact of these sales on the interest rate, and costs associated with these sales are excluded from the fiscal rules. The fiscal benefits of slowing or stopping bond sales would not therefore be recognised under the current fiscal framework. This would need to be changed.

Implementation and timetable

Slowing or stopping Bank of England sales requires convincing the Bank of England. This could be done in a private meeting between the Chancellor and Governor. But it might be seen as a political challenge to central bank independence. Instead, it might be more sensible to change the Bank of England's mandate to explicitly acknowledge its fiscal impact. This has been recommended by Chris Giles of the Financial Times.¹⁹ This could be done immediately through a letter from the Chancellor to the Governor.

A change in formal mandate should result in the desired policy change. But it would not guarantee it. This strengthens the argument for more explicit coordination between the Treasury and Bank of England, as we detail below. As the impact of bond sales is affecting interest rates and therefore fiscal space now, the sooner such changes are implemented the better. This should be accompanied by a minor change in the fiscal rules to acknowledge the fiscal impact of the policy.

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3. Reducing the fiscal cost of the Bank of England

Context and current policy

Implementation of Bank of England policy has cost the UK government over £90bn, or more than £30bn a year, from 2023 to 2026.²⁰ This is as a result of the losses it has sustained from Quantitative Easing (QE). As interest rates have risen, the BoE has had to pay more interest on the commercial bank reserves it created for QE than it has earned from the government bonds it bought when interest rates were near zero. Quantitative Tightening (QT), which involves selling these bonds at lower market prices than they were bought for, locks in significant valuation losses. While the Bank of England has slowed the rate of sales to reduce the costs, the experience of other central banks shows that much bigger savings are available.

The UK is unusual in imposing these costs of the central bank directly onto the government via the 'indemnity' – the agreement that the Treasury will cover the Bank of England's costs related to QE. In the US and Eurozone, central banks count these costs as 'deferred assets' or 'losses carried forward'. These measures allow the central bank to meet its current obligations by creating central bank money, to be reversed later when it returns to profitability. As a result, there is no direct or upfront cost on US or Eurozone Treasuries. Both the Federal Reserve²¹ and the European Central Bank²² maintain that this practice has no impact on their ability to meet their inflation mandates.

If the Bank of England adopted a 'deferred asset' system like the US it would save the Treasury £18bn per year until 2031.²³ It is important to note here that this is an accounting change rather than a reduction in cost; QE losses would still cost the Bank of England, and therefore the government at large, but it would at least stop the Treasury from having to immediately pay up, relieving the spending pressure to cover the Bank of England's costs in the immediate term.

Proposed policy

To achieve an actual reduction in the Bank of England's costs, a tiered reserve system is a more direct solution. This is the method used by the Riksbank in Sweden. The Swedish Parliament must vote to approve fiscal support for the Riksbank. To minimise recurring political requests, the Riksbank has adopted a 'tiered reserve' system. Under this approach, commercial banks are required to hold a certain amount of central bank money (reserves) that pays no interest, reducing the central bank's interest bill. Such reserve requirements have historical precedent in the UK but are not currently in use.²⁴

Economic and social benefits and costs

Modelling based on the upper end of historical UK reserve requirements suggests such a system could save up to £11.5 billion a year on average.²⁵ These savings could be realised immediately and channelled towards government spending priorities. The banks would protest that it was a tax on them which would reduce their capacity to invest in the UK economy. In practice it would be a tax on the additional profits they have made from higher interest rates.

Implementation and timetable

Implementation of the tiered reserve proposals would require a change in Bank of England policy. While it is possible for the government to request changes in the Bank's policy, this could be seen as threatening central bank independence. Again, Chris Giles's suggestion of amending the Bank of England's mandate to include consideration of its fiscal impact would push it to make changes but give it the freedom to decide between options such as tiering reserves or changing the accounting method or indemnity. Alternatively, failing movement from the Bank of England, the Treasury could design a direct tax on commercial banks that functioned similarly to tiering reserves, as recommended by IPPR.²⁶

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4. Economic coordination

Context and current policy

Under the present macroeconomic framework the Treasury and Bank of England are required to work independently, without coordination. Yet their policies impact on one another. Greater fiscal coordination can make both more effective.

In the Autumn 2025 budget the government showed how fiscal policy can reduce inflation: its energy bills package and freezes to rail fares and fuel duty were assessed by the OBR as bringing inflation down

over 0.4 percentage points.²⁷ The Bank of England later supported this analysis.²⁸ Now, in the face of an oil shock from the war on Iran, direct measures to bear down on prices will become even more important.

If the Bank of England has to tackle inflation alone, this will mean it will have to use its limited range of tools more aggressively. This results in higher interest rates, dampening growth. Therefore, having the government work with the Bank of England to tackle inflation can help reduce the expected path of interest rates, which in turn boosts growth and lowers government borrowing costs. When inflation is the result of an external cost shock, fiscal policy is more effective than monetary policy in bearing down on prices.

Proposed policy

Two separate measures are available, not mutually exclusive:

- **Consideration by the government of policies to protect prices in sectors that make up a large proportion of households' day-to-day living costs**, or constitute an input to many other production processes. This would enable the government to help lower inflation in politically salient areas for the cost of living. This proposal is discussed further in both the Cost of Living and Good Growth chapters of this report.
- **Establishment of an Economic Coordination Committee** through which the government, Bank of England, devolved governments and economic agencies (such as the Low Pay Unit and Committee on Climate Change) could coordinate their policy approaches. A body of this kind has been recommended in recent reports from the New Economics Foundation²⁹ and the Fabian Society.³⁰

Economic and social benefits and costs

The benefit of coordination can be hard to quantify but successful coordination should bring down both inflation and interest rates. Small movements here can make large savings for the government – a 0.1 percentage point decrease in interest rates on government debt saves £1.5bn per annum and a 0.1 percentage point decrease in inflation saves £1bn on interest on inflation-linked government debt.³¹ This means government spending can be redirected from paying interest on government debt to providing public services.

Having the Treasury and Bank of England working more closely together may also enable the Bank of England itself to make targeted interventions in key sectors. During the pandemic the Bank of England explicitly encouraged lending to SMEs, and in other countries central banks encourage and provide cheap credit to lending aimed at facilitating the green transition. With more explicit coordination between the Treasury and Bank of England, such proposals could be

considered more seriously and more regularly. As the Bank would be acting under democratic guidance from the government it would reduce concerns that it was overstepping its mandate as an independent institution.

Implementation and timetable

Overt coordination between the government and Bank of England can be achieved through a change in practices. An Economic Coordination Committee could be established fairly quickly without legislation, though ultimately it might be stronger with a statutory basis.

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7. Taxation

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Introduction and rationale

If the new Labour government is serious about rebuilding public confidence and delivering material improvements to people's lives, it must be prepared to address one of the structural causes of inequality: a tax system that favours wealth over work.

Bringing in higher taxes on wealth – importantly, extreme wealth - is not a silver bullet. But it is a crucial first step to raising significant revenue to fund an ambitious programme of public services renewal, to support people struggling to make ends meet, and to tackle the extreme wealth inequality now crippling the UK.

The Equality Trust has shown that billionaire wealth has grown by 842% since 1990: the 50 richest families in the UK currently own more wealth than the poorest 34 million people.¹ This inequality is starkly reflected between regions. The South East is the wealthiest of all regions with median household total wealth of £503,400, over twice the amount of wealth in households in the North of England.²

This widening wealth inequality is due in part to the way the UK tax system is designed: taxing income from wealth at lower rates than income from work, with a myriad of unfair loopholes which enable tax avoidance. This leaves the wealthiest in our society often paying proportionally less in taxes than the average person. While the top rate of income tax (for those earning more than £125,140 annually) is 45%, once capital gains are taken into account, the range of effective tax rates is much wider, with almost a quarter of people with £3 million or more in assets paying no more than 12%.³

As we show below, taxing wealth more fairly could raise tens of billions of pounds each year to provide funds for essential public services, including council housing and social care, and for investing in our villages, towns and cities. Reforming the tax system will not be achieved through a single measure or a single Budget. But early action is essential to tackle inequality, strengthen public finances and demonstrate that the government wants to get the economy working for everyone.

The principle of taxing wealth more highly has growing support among economists, think-tanks and international organisations including the OECD and International Monetary Fund (IMF).⁴ Polling by YouGov and Patriotic Millionaires UK shows that 75% of the public and 80% of UK millionaires themselves want the wealthiest to pay more, and are more likely to vote for a party that commits to raising taxes on the very rich to invest in public services and improve living standards.⁵

Further information

- Advani, A., Hughson, H. and Summers, A. (2023). How much tax do the rich really pay? Evidence from the UK. Oxford Review of Economic Policy, 39 (3), pp. 406–437. Available at: <https://academic.oup.com/oxrep/article/39/3/406/72457>

1. Equalising Capital Gains Tax with income tax rates and reforming its structure

Context and current policy

Capital Gains Tax (CGT) - the tax paid on profits made on the sale of an asset - is one of the UK's most economically inefficient taxes, characterised by avoidance loopholes and low rates. While Rachel Reeves raised the main and higher rates to 18% and 24% in the 2024 budget, she did not complete reform in 2025, leaving the UK's CGT rates as the lowest in the G7.

CGT is paid by just 0.5% of adults each year – fewer than the number who pay the top rate of income tax. Since it is not paid on a primary residence, few people have sufficient wealth to make significant gains from it. This contributes to extreme regional wealth inequality. It is estimated from the tax data that, in the accounting period 2015-19, one neighbourhood in Kensington, home to 6400 people, had as much capital gains as everyone in Liverpool, Manchester and Newcastle combined.⁶

Proposed policy

The core principle underlying the proposal is one almost universally favoured by economists: different forms of income should be taxed at the same rates, regardless of their source. Any variation between rates creates economic distortions – for example, wealthy individuals converting their work income into capital gains.

To achieve this, the government should implement a comprehensive package of reforms to the CGT system. As set out by the Centre for the Analysis of Taxation (CenTax) at the University of Warwick and LSE,⁷ this would involve:

- Equalisation of CGT with Income Tax rates, to make the system fairer and more equal, and reduce avoidance where people use companies to convert income into gains;
- Introduction of an investment allowance, thereby cutting the effective tax rate for 51% of CGT payers (and leaving it unchanged for a further 7%) while improving investment incentives;

- Removal of uplift at death, which currently allows assets held until death to escape tax, distorting investment incentives;
- Introduction of rebasing on arrival and deemed disposal on departure, which ensures that the gains people make whilst living in the UK are always taxed in the UK, removing the ability to leave without paying.

Revenue raised

Rachel Reeves' 2024 reforms are set to raise £2.5 billion by 2029-30. The full package of reform proposed here would raise a further £11.3bn a year.⁸ To put this in context, this is more or less the same sum (£11.8bn) as is needed by the government to fund the building of 90,000 new social homes.⁹

Economic and social benefits and costs

The current CGT system harms productivity and growth, because it encourages people to convert labour income into capital gains, hoard their wealth until death, and leave the UK to avoid paying. As both the Institute of Fiscal Studies and IPPR have pointed out, there is strong evidence that the changes proposed would therefore support investment, productivity and growth.¹⁰

Political advantages and risks

The proposed reforms would affect a small group of wealthy people. The investment allowance would leave over half (51%) of current CGT payers better off, with 40% taken out of the tax altogether.¹¹

CGT reform would be criticised by wealthier individual investors and in the right wing media as an attack on investment incentives. But reform has wide support, including from the Institute of Fiscal Studies, centre-right think-tanks such as Bright Blue, and the soft left Labour Growth Group and Tribune Group.¹² Its original proponent was Nigel Lawson, then Conservative Chancellor, who first equalised CGT rates with income tax rates in his budget in 1988.

Implementation and timetable

CGT reform would be relatively easy to implement. The rate changes and closing of loopholes could be brought in at the next budget, while an investment allowance could be introduced in the next tax year. A settling up charge (exit tax) would require some additional reporting process, but this should be straightforward to design and introduce based on experience in other countries.

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2. Extending NICs to income from investments and partnerships

Context and current policy

The National Insurance system creates stark differences in how earnings are taxed according to their source. Currently National Insurance Contributions (NICs) are paid on income from work but not on investments, such as rent from property and interest on savings. This means that landlords without a mortgage pay a lower tax rate than their tenants whose only income is from their job. The system effectively favours passive rental income over work.

Similarly, there is no equivalent to 'Employer NICs' on partnership profits earned from law firms and similar companies - despite these going to some of the highest earners in the country. Earnings data analysed by CenTax shows that the top 0.1% of UK taxpayers by total income received 46% of all partnership income in 2020, compared with less than 5% of all employment income.¹³ As a result, lawyers and others can see their effective tax rate go down when they are promoted to partner.

Proposed policy

The government should adopt the proposals developed by CenTax to expand the NICs tax base to include income from both investments and partnerships.¹⁴ The policy would be designed to protect smaller partnerships and lower earners, leaving two-thirds of partners (66%) owing no partnerships NICs. GPs could be taken out of the scheme altogether.¹⁵

This would remove economic distortions, ensure income from wealth is taxed at the same rate as earnings from work, and be better for growth.¹⁶

Revenue raised

CenTax estimate that applying NICs to investment and partnership income would raise £6.1 billion a year after potential behavioural responses. Of this, £3.1bn would come from property income, £0.6bn from savings income, £0.5bn from other investment income, and £1.9bn from partnership income (£1.7bn if GPs are excluded). To put this in context, just extending the scope of NICs to include investment income

would raise enough (£4.2bn) to restore school funding in real terms to its level in 2010.¹⁷

Economic and social benefits and costs

These changes would be a key step in making the tax system fairer and removing distortions.¹⁸ Applying NICs to partnership income would extend neutrality in the tax system, with benefits for growth. Combining this reform with the CGT reform would reduce the impact for most smaller landlords, as the investment allowance would ensure that they are only taxed on profits, not revenues.¹⁹ The principal taxpayers would therefore be wealthier landlords with large numbers of properties. It is possible that it would encourage some of these to sell up, removing rental property from the market. But as outlined in the Housing chapter, such properties could be bought up by councils to be let at lower rents.

Political advantages and risks

The principle that the tax system should treat different forms of income in the same way is widely supported by economists and tax experts, including the Institute of Fiscal Studies.²⁰ Applying NICs to investment and partnerships income (with the associated CGT reform) will almost entirely affect high income households. In general there is widespread negative public sentiment towards private landlords in the UK, across political and demographic lines,²¹ which suggests that many people would be likely to support the equalisation of their tax rates with those on income from work. A common challenge from opponents of this reform is that landlords would pass on increased taxes to renters through higher rents, but the introduction of the Renters Rights Act in May 2026 restricts landlords from raising rents more than once a year, or out of line with open market rent value. Demos found that when learning about the tax advantages of partnership income, most people see it as unfair, and some regard it as a loophole.²²

Implementation and timetable

The reform could be introduced in the Finance Bill for the next Budget, to come into force in the following tax year.

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- Advani, A., Hughson, H., Summers, A. and Tarrant, H. (2021). Fixing national insurance. CAGE. Available at: <https://warwick.ac.uk/fac/soc/economics/research/centres/cage/manage/publications/bn33.2021.pdf>

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3. Closing the carried interest regime for private equity

Context and current policy

Carried interest (often known simply as ‘carry’) is a share of profits from private equity, venture capital or hedge funds, and one of the main forms of pay in the private equity industry. It is enjoyed by just 0.01% of the population, and is starkly split along gender lines, with men making up 85% of recipients and receiving 96% of all ‘carry’.²³ Until 2025 it was taxed as a capital gain, rather than as earned income, at the rate of 28%. In April 2025 the government increased the CGT rate applied to carried interest from 28% to 32%. Since April 2026 all carried interest has been treated as trading income within the Income Tax framework, amounting to an effective tax rate of 34%.²⁴

This increase is welcome, but still falls far below the top Income Tax rate of 45% (plus 2% National Insurance) paid by the highest earners, and it is forecast to bring in just £85 million by 2029-30.²⁵ These changes therefore preserve significant and unfair advantages to private equity owners.

Proposed policy

Carried interest should be taxed under the income tax framework as a ‘performance-related reward’, subject to normal income tax rates including the top rate of 45%.

Economic and social benefits and costs

Closing the carried interest loophole would help make the tax system simpler and fairer. The private equity industry claims that doing this would lead private equity companies to leave the UK, thereby threatening investment. But the tax system should not be designed to give particular forms of income special treatment. There are many good reasons for private equity companies and their executives to be located in the UK, and as the measure targets executive pay, not the economics of private equity funds themselves, it should not affect investment.

Estimated revenue raised

CenTax estimates that fully equalising the tax rate on carried interest with the top rate of Income Tax would raise around £0.8 billion.²⁶ This is more than enough to fund, for example, the Pride in Place Programme, the Government's flagship communities programme empowering local people to shape the future of their neighbourhoods, which has been allocated £5.8bn over 10 years.²⁷

Political advantages and risks

Labour promised to close the carried interest loophole in its 2024 manifesto, so there is a clear mandate to make this change. The industry would threaten mass exodus, but the evidence available does not support this claim. In CenTax's worst-case modelling scenario there is a 7.3% reduction in carry recipients, well short of the 39% emigration rate needed for revenues to turn negative.²⁸

Implementation and timetable

Changes could be made in the next Budget's Finance Bill, to come into force the following tax year.

Further information

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4. A Proportional Property Tax to replace Council Tax and Stamp Duty

Context and current policy

Council tax is one of the most regressive, outdated and unfair taxes in the UK today, with bands in England still based on 1991 property values. Council tax bills are felt hardest by lower earners, exacerbating the ongoing housing crisis. For the poorest households, Council Tax can cost more than 5% of their gross household income - in many cases more than Income Tax. For the wealthiest, Council Tax can take as little as 1% of gross income, sometimes less.²⁹

Stamp Duty, the tax applied when buying residential property, makes home ownership more expensive and harder to attain, while also discouraging people from downsizing. It is almost universally criticised

by economists and tax experts, and widely disliked by people who are required to add it to the cost of buying a home.

Proposed policy

Council Tax and Stamp Duty should be replaced by a proportional property tax (PPT) - a single, flat rate tax charged annually at 0.48% of a property's value and based on regular revaluations. The tax would be proportional to the value of a property, paid by the owner rather than the occupier, with adequate protections included so the costs can't simply be passed on to renters. Exemptions on undeveloped plots and second homes should be scrapped, and made subject instead to higher rates of tax, to encourage use of homes as primary residences and ensure the wealthiest pay their fair share. The reform should also include a 'fair funding' redistribution formula to ensure that councils with lower value properties don't lose out on essential funding.

To protect against the minority of cases where property owners genuinely cannot afford the new tax bill, a £1,200 annual cap could be placed on tax increases for primary residences. A deferral scheme allowing some of the tax to be deferred until death can also be put in place for those who are asset-rich, but cash-poor.

A proportional property tax is used in a number of OECD countries, including Ireland, Sweden and New Zealand.³⁰ The organisation Fairer Share has outlined a comprehensive framework of how a PPT could work in practice in the UK.³¹

Revenue raised

Fairer Share estimates that a 0.48% PPT, introduced alongside the abolition of both Council Tax and residential Stamp Duty, would see a net increase in annual HMT revenue of £5.6 billion annually.³² This figure will change slightly depending on property prices, council tax bills and SDLT receipts. They have also modelled a revenue-neutral option, at a lower tax rate.

Economic and social benefits and costs

Under a 0.48% PPT, 75% of households would be better off than they are under the present system, with only 23% worse off. 18 million households would get a cut to their current Council Tax bill. Yet it would yield enough revenue to fully replace Council Tax, Stamp Duty Land Tax and the Bedroom Tax.³³ The cost would be borne almost entirely by the better off, especially in London and the South East and other wealthier areas, who have benefited from a huge rise in property values over the past 35 years, entirely unreflected in council tax bands and rates. A PPT would therefore help tackle wealth and regional inequality and put money back in ordinary people's wallets.

This change would also boost economic growth by incentivising more efficient use of the housing stock and rebalancing investment and house prices.³⁴ Higher additional rates of tax for second properties and overseas buyers would help disincentivise the use of homes as investment property, making homes more affordable for ordinary people.

Political advantages and risks

It is widely agreed that both council tax and residential stamp duty are unfair and in need of overhaul. A significant cross-party group of MPs (including Labour, Conservative and Liberal Democrat) support their replacement with a PPT.³⁵ The complexity and time required to revalue all UK properties is often cited as a reason not to reform the system. But this logic would mean the 1991 values remaining in place forever. Revaluation has to be done some time, and the Welsh Government has set a positive example - committing to revaluing property tax bands in 2028, having last revalued them in 2003. Institutional capacity for regular automatic revaluations is already in place through the revaluation of council tax bands, and can be assisted through modern data analysis methods.

The majority of the 23% of households who would pay more under the proposed PPT are homeowners in London and the South East, where property values are highest. So the reform is likely to be unpopular with people in these areas. There are also legitimate concerns that the higher costs of a PPT in these areas would be passed on by landlords to tenants via increased rents. This is a reason to ensure adequate legislation is put in place to protect renters, rather than shy away from making necessary changes to council tax. In addition, by taxing unused and underused properties, including second homes, the proposal should result in an increase in rental supply.

Implementation and timetable

Introduction of a Proportional Property Tax would take 2-3 years to implement, though the precise timetable would depend on how a government chose to structure the reform. It would require primary legislation to abolish Council Tax and residential Stamp Duty and establish the new PPT framework. It would also require up-to-date property valuations across England, and the infrastructure for regular revaluations to be established. But this is entirely possible: the real estate portals Zoopla and Right Move already provide valuations of more or less the entire housing stock, and mortgage providers value hundreds of thousands of properties every single year. A modern mass-appraisal system would make this considerably more straightforward than the individual physical valuations of every property which would have been required in the past.

Further information

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5. A 2% annual wealth tax on net assets over £10 million

Context and current policy

The UK does not currently have a tax on net wealth. Income from wealth is taxed through Capital Gains Tax (CGT), while Inheritance Tax (IHT) taxes wealth passed on at death, and property wealth is taxed via Council Tax and Stamp Duty. Taxes relating to wealth are unpredictable and infrequent: unless someone sells an asset there is no CGT, and until someone dies there is no IHT. There is no tax that targets someone's assets in their entirety.

Proposed policy

A wealth tax on assets exceeding £10 million would require individuals above this level to pay a 2% tax on the amount over the threshold. Wealth would be measured by the overall value of someone's assets, minus any debts. For example, a person with net assets worth £11 million would pay 2% on the £1 million above the threshold, generating tax revenue of £20,000.

The Wealth Tax Commission based at the University of Warwick and the LSE set out a detailed proposal for a wealth tax, with accompanying evidence from experience overseas, behavioural responses and expected revenues at different rates and thresholds.³⁶

Economic and social benefits and costs

Setting an annual wealth tax at a high threshold of £10 million would ensure that only a tiny proportion of the population would be impacted - just 0.03%, or 22,000 people using 2021 data.³⁷ This would make it simple for HMRC to administer. Yet it would raise significant tax revenue, around £24bn a year, which could be used to relieve the cost of living crisis and contribute toward improving public services. In the longer term it would redistribute wealth and help tackle wealth inequality via government spending and investment that benefits the majority of the population.

Work to improve HMRC's capacity to measure and collect the right level of tax from the wealthiest people would have wider tax compliance benefits. It could support the UK Government's goal of closing the tax

gap between tax liabilities and receipts, which currently sits at £59.2 billion.³⁸

Estimated revenue raised

CenTax estimate that a 2% tax on net assets above £10 million would raise up to £24 billion a year, once behavioural changes are taken into account.³⁹ This would, for example, raise enough money to enable the government to fund an NHS-style, free at the point of use, universal and comprehensive social care system (estimated at £18.5bn a year by 2035/36).⁴⁰

Political advantages and risks

Those who would be liable to pay the tax comprise the UK's wealthiest people. At this level of wealth (over £10m) most people have a diversity of assets, allowing them to pay without having to sell property or experiencing a significant change in their financial situation. An annual 2% wealth tax would ensure that people who have benefited enormously from a tax system that treats income from wealth and work differently, and from an economic system which has seen huge inflation in the value of property and financial assets, pay their 'fair share' to benefit society as a whole. In practice it would ensure that many of those who have the very highest levels of wealth pay just a slightly higher effective tax rate than the rest of the population. As the Wealth Tax Commission points out, if the government's aim is to reduce wealth inequality, an annual wealth tax is the simplest way to achieve this via the tax system, as there are limits to what can be achieved through reforming existing taxes.⁴¹

There is increasing momentum behind the proposal for a tax on wealth over £10 million, with support from a range of economists, politicians, think-tanks, unions and NGO leaders.⁴² The measure is supported by 75% of the general public (including a majority of potential Reform voters) and 80% of UK millionaires themselves when it is specified that the money will be used to help fund public services and tackle the cost of living crisis.⁴³

Calls for a wealth tax are often met with the claim that the wealthy will leave the country. However, in reality there is no credible evidence that an annual wealth tax would cause thousands of millionaires to leave the UK. Academic research on reform of the UK's non-dom status in 2017 showed that just 2% of those who had been in the UK for fewer than 3 years left afterwards, and a much smaller proportion among those with longer-term ties to the UK.⁴⁴ Some of the widely-reported 'evidence' about a global 'millionaire exodus' has been exposed as using data exaggerated to the point of fabrication.⁴⁵ Looking internationally, Tax Justice Network research found that just 0.01% of the richest households relocated after wealth tax reforms were introduced in Norway, Sweden and Denmark.⁴⁶

Implementation and timetable

An annual wealth tax could not be introduced immediately. The Wealth Tax Commission estimated that it would take around 2-3 years to build the necessary capacity and infrastructure in HMRC and the Valuation Office Agency. Primary legislation would need to be introduced in a Finance Bill.

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8. Welfare and Employment Support

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Introduction and rationale

Life is inherently uncertain: ill health or redundancy, or a wider economic shock such as a pandemic or energy price spike, can change your circumstances in the blink of an eye. This is when our safety nets – whether that’s Universal Credit (UC) or sick pay – should be there to help absorb the shock and give people security to get back on their feet.

But our safety nets are not performing their job. Their application is uneven, inadequate and in some instances absent altogether. Thousands of workers are stripped of basic protections because companies class them as self-employed when they clearly aren’t. When out of work, Jobcentres focus on monitoring and compliance rather than quality job advice – and people with health conditions get little support at all. And Universal Credit, the main low income and out of work benefit, is so meagre that 5 in 6 low income households claiming it went without essentials last year.¹

While debate rages about the apparently spiralling benefits bill, the OBR’s most recent forecast (March 2026) shows that it will remain flat at 5% of GDP throughout this parliament. In fact, a decade and a half of cuts and freezes starting in the 2010s has left the system threadbare, and demonstrated that simply cutting support is ineffective or even counterproductive, worsening future employment prospects and shifting costs elsewhere. For example, sharp cuts to health-related support in UC in 2017 failed to help people into work, but did result in a 5 percentage point increase in severe poverty and a 14 percentage point increase in poor mental health among people affected.²

The welfare system is having to work harder than it should, because it is picking up the tab for failures elsewhere – like worsening population health, high housing costs, or a labour market that locks people out of good jobs.³ This is where the focus of government policy should be. If the government hit its goal of an 80% employment rate, for example, this would reduce Universal Credit spending by almost £10 billion in 2029/30.³ For every 100,000 social homes that are built, spending on UC’s housing element would reduce by around £300 million a year.⁴

Protecting people from income shocks underpins a strong economy, supporting demand and giving people breathing room to find the right job. It also protects people from the grinding effects of poverty on health and future prospects, which add pressure to public services and undermine future living standards. The last Conservative government learned the hard way that failing to protect living standards has electoral implications. Keir Starmer’s Labour Government was already precariously close to repeating that failure when the war in Iran began to interrupt supply chains and sent oil prices spiralling. Strengthening our safety nets has a vital role to play in providing certainty and

security to people in difficult times. It should be seen as a crucial part of an electoral strategy too, as voters feeling economically insecure are more likely to switch their support away from Labour than those that feel economically secure.

Currently our social security system is picking up the tab for economic and social failures. High housing costs, a lack of good jobs and worsening health translate into pressure on our social security system.⁵ It is crucial that investment in Universal Credit is paired with efforts to tackle these underlying drivers of need to ensure both the sustainability of the system and public consent. This progressive narrative aligns with public preferences on the approach that government should take. Public attitudes research shows more than twice as many people want government to tackle the underlying causes of people's need to claim benefits (59%) than want it to cut eligibility or rates of support (20% and 8% respectively).⁶

Young people not in education, employment or training (NEET) is a good example of such social and economic failure, as a period spent out of work in early adulthood has significant scarring effects on health and employment prospects later in life.⁷ Creating the conditions to enable young people to work or return to education and training will reduce the need for social security both now and in the future. A less noted aspect of the challenge is how early life experience impacts on the likelihood of becoming NEET –with new analysis demonstrating how experiencing persistent poverty as a child triples the risk of becoming NEET.⁸ As such, the child poverty strategy and family support should be seen as part of a strategy to reduce the number of NEET young people. For those currently NEET, the Government's Youth Guarantee approach of combining personalised support with paid work placements is well evidenced and should be expanded to reach more young people.⁹ However, the Pathways to Work Green Paper proposal to cut benefits for under 22s with a health condition that leaves them unable to work or prepare for work would simply drive up poverty, making it harder to move to work or learning, and should not be pursued. As set out in the Confident to Work proposal below, the focus should be on providing the local and personalised support these young people have too often been denied.

1. An Essentials Guarantee in Universal Credit

Context and current policy

The Government recognised the damaging nature of deepening economic hardship when it chose to over-index the basic rate of UC in the 2025 Universal Credit Act. While a welcome boost, the Government has not leveraged the political benefit of this change because it has not told a compelling story about why it did this, or given a sense of the

policy goal. An Essentials Guarantee would change this, and position social security as part of the solution to the living standards challenge.

Proposed policy

An Essentials Guarantee would enable the Government to speak powerfully to the common-sense principle that our social security system should be there for all of us when we fall on hard times. But, extraordinarily, the basic rate of UC is not currently connected to any assessment of the cost of life's essentials, such as food, energy, toiletries or cleaning products.

An Essentials Guarantee would create a legal minimum for the basic rate of UC, so it is at least enough to afford these essentials, and cannot be pulled below this amount by reductions such as debt deductions or the benefit cap. Rate setting would be informed by an evidence-based advisory process, which would include evidence from people with experience of living on a low income. Just as the creation of the National Minimum Wage and Low Pay Commission changed the debate about low pay, an Essentials Guarantee can help change the debate about social security. It would emphasise a system that is there for everyone when we experience an adverse shock in our household conditions.¹⁰

There is also an immediate and low-cost step that can be taken to seed the principle of a safety net below which no one should fall, by creating a protected minimum floor in UC. This would limit the deepest hardship caused by debt deductions and the benefit cap by restricting to 15% the total amount that could be taken from the basic rate of UC by debt deductions or the benefit cap.

Economic and social benefits and costs

A strong system of social security underpins a strong economy by supporting the incomes of low paid workers and out of work people. It strengthens demand (critical to support growth), gives breathing space so people can find a better job-match that makes good use of their skills, and enables them to take up economic opportunities and be their best at work. Poverty damages people's health, potential and children's education, with lasting effects that further undermine future living standards. So lowering hardship would also improve the economy in the long run, while reducing immediate pressure on public services like the NHS and schools. Without an adequate safety net, life's setbacks can be hard to overcome.

Estimates show the Essentials Guarantee set at the level JRF indicates would result in 2 million fewer people at risk of 'hunger and hardship' and reduce costs to wider public services like the NHS, homelessness and children's services by around £3bn annually by year 5.¹¹ It would also contribute around £4.5bn net to the Government's budget from higher

tax revenue and lower social security spend, as well as around £10bn annual benefit to the wider economy.

Fiscal cost

JRF's initial analysis indicates a single adult needs £120 and couples £205 per week to cover life's essentials (not including housing costs). Moving to this level in full immediately would cost in the region of £15bn pa. However, just as it took years for the minimum wage rate to ratchet up and eradicate low pay, so too the pathway to an Essentials Guarantee can be achieved over time, so long as the vision and political will to get there exist.

Political advantages and risks

Recent JRF polling shows that guaranteeing that everyone receiving Universal Credit is at least able to cover the cost of core essentials is popular with the public.¹² 59% of people support the idea, rising to 72% among Labour 2024 voters. The salience of the cost of living reflects voters' concern not just for their own lives, but those of their relatives, friends and neighbours too: 57% say we cannot properly tackle the cost of living without taking action to improve the lives of those facing deep hardship, a figure that rises to 63% among 2024 Labour voters. Support for an essentials guarantee is lower among people intending to vote Reform or Conservative, but still net positive (48% and 50% respectively, more than twice the proportion opposed in each case). The main risk is of an adverse reaction among the right-leaning media, although an argument about a system that ensures everyone has the basic essentials to live on is hard to oppose.

Implementation and timetable

Introducing an Essentials Guarantee would establish in law the principle of a minimum in the system below which the basic rate of UC cannot fall. It would also require the establishment of an independent process to advise on the rate the system should move towards. Establishing the goal would then enable a pathway towards it to be mapped.

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2. Employment rights

Context and current policy

Millions of workers will benefit from the changes in the Employment Rights Act (ERA), such as day 1 rights to sick pay and parental leave – but two significant problems remain.

First, workers not on standard employment contracts – like gig workers and the self-employed – are locked out of basic protections such as paternity and sick pay. This is despite a clear need for support – the poverty rate among the self-employed workers is double that of employees.¹³ It also creates an incentive for companies to use these non-standard forms of employment where they can, as they come with fewer obligations towards workers and no employer national insurance is payable.

Second, we have meagre in-work social insurance for the employed, which the ERA doesn't expand – for example, very low rates of parental and sick pay, which leave many workers struggling to juggle care and work, or unable to recover from illness.

Solving this requires a new settlement for in-work social insurance which provides all workers with security if they can't work for short periods. This would keep them linked to the labour market and make it more likely that they stay in work and support themselves. The new settlement should comprise generous levels of earnings protection for core protections like sick pay and parental pay, and support to build up sufficient pension contributions. This system could be launched as

a new arm of the existing system of social insurance, bringing together existing administration and systems, with a single application platform on Gov.UK. The Joseph Rowntree Foundation have recently published a briefing on this and will continue to produce work in this space.¹⁴

Proposed policy

The table below sets out where existing support falls short and where a new system would improve the status quo. The system would include common sense controls to manage abuse and fraud, such as requirements for workers to have paid NI for at least a year to receive higher rate wage replacement, and fair use restrictions on sickness protections for the self-employed.

Existing system	Proposed end goal (5-year ambition)
Sick pay – low, flat-rate payment for employees, no support for self-employed workers.	2 weeks of full pay (capped) followed by statutory sick pay for 26 weeks for all workers, including the self-employed.
Maternity pay – 6 weeks at 90% of previous earnings for qualifying employees, followed by a low flat-rate payment for 33 weeks. Qualifying self-employed workers get a low flat-rate payment at or below the rate for employees for 39 weeks.	All mothers receive 6 months of paid leave at 90% of previous year's income (capped), followed by 15 weeks of Statutory Maternity Pay.
Paternity pay – least generous system in Europe with a low, flat-rate payment for 2 weeks for employees, self-employed have no access.	All fathers receive 6 weeks of paid leave at 90% of previous year's income (capped).
Increasing income adequacy in pension age for the employed, but issues with adequacy amongst self-employed who don't benefit from auto-enrolment.	All self-employed contribute via tax return to pension, with the government providing 20% tax relief.

Economic and social benefits and costs

The key advantages of delivering this policy are a reduction in economic insecurity for workers on low pay and in insecure work, as well as those on middle incomes. There are also specific growth benefits from individual policies, such as more women entering the workplace if paternity pay is more generous, making some changes at least cost neutral, and reductions in economic inactivity if workers can recover from ill health and maintain a connection to work. The key costs are the upfront fiscal costs, which can be addressed with a phased approach to introducing the new system.

Fiscal cost

The cost of these policies is dependent on take-up and rates of payment, but JRF's draft costings place the full cost at around £9.4 billion pa.¹⁵ This could be funded by increases in general taxation, taxing all income from work more equally, and ensuring that companies that rely on less protected forms of work, such as gig platforms, pay their fair share. Expanding existing support to the self-employed would cost around £900 million pa.¹⁶

Political advantages and risks

The key advantages are political. The Employment Rights Act is a powerful symbol of Labour standing up for workers, but many people will not feel its tangible benefits, whereas improvements to in-work social insurance will be felt by any worker who has a child or falls sick for a sustained period.

Implementation and timetable

We recommend that government first expands existing support to the self-employed and then in the next Parliament makes core protections (sick pay and parental pay) more generous for all workers. This could be done incrementally – for example, first increasing the duration of Paternity Leave to six weeks at existing payment levels and then later in the Parliament increasing its generosity. Creating new payments (e.g. sick pay for the self-employed) may require legislation, while increasing the generosity of existing benefits likely does not.

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3. Confident to work: tackling economic inactivity

Context and current policy

2.8 million people are economically inactive due to long term sickness or disability, making up 3 in 10 of all economically inactive people. While some will never be able to work, many want to, but find themselves hampered by a lack of support, too few jobs in their local area, jobs that don't accommodate their health needs and employers that aren't willing to give them a go. The employment rate of disabled people is 30 percentage points below that of non-disabled people, with little progress narrowing this gap in recent years.¹⁷

The Government has outlined some important reforms, including de-risking moves into work with a statutory 'right to try', and a record commitment to increase spending on employment support to £1 billion per year by the end of the parliament. The £115 million Connect to Work programme is also experimenting with localised, personalised voluntary employment support, while the Mayfield Review has looked at the role of employers in preventing people dropping out of the labour market and creating pathways back into it. With just one disability-confident job advert for every 121 people receiving incapacity benefits, rising to 1:333 in ex-industrial areas, the need to focus on the availability of suitable jobs is a particularly important and often overlooked part of the agenda.¹⁸ These are all moves in the right direction that need rocket boosters put under them. Currently the social security system is picking up the tab for these failures.

Proposed policy

Speaking to out of work sick and disabled people reveals the biggest barriers to work are not skills or motivation, but managing health conditions, employer attitudes, sufficient good jobs and fear of the benefits system itself. A three-pronged approach is needed.

First, the risk that engaging with employment support will lead to benefit reassessment, loss of entitlements and increased conditionality and sanctions must be tackled. The fear of taking a job that does not work out, then having difficulty returning to their previous benefit entitlement, can be paralysing. Almost 3 in 4 out of work disability benefit recipients say the fear of losing benefits is a significant or very significant barrier to work. This is why the 'right to try' is so important.

But to build trust Government should signal a big shift by going further on the right to try so it guarantees in law no reassessment for 18 months after starting work, unless fraud is suspected. This would make moving towards and into work a much safer option for people.

Second, there is a fundamental lack of trust in the system that acts against engagement with employment support, which for too many people has not been readily offered anyway. As the support offer expands, it must be delivered through trusted community organisations rather than Jobcentres, enabling the focus to shift from monitoring and compliance to support needs. Responsibility for the design of employment support should be rapidly devolved to combined authorities in England, so it can be better connected up with other forms of support, such as healthcare, training and financial inclusion. Greater Manchester Combined Authority's Live Well centres are a good example to build on.

Third, there needs to be an offer to employers. At the local level this should include the development of services to broker workplace changes and help for employers to make these changes when they hire a disabled worker. This support should continue for 6 months after someone starts a new job. This offer to employers would enable employment support and training to connect with local economic strategy. At the national level the Mayfield Review rightly highlighted the need to gather evidence on the design of employer incentives to take on and retain sick or disabled workers - such as procurement levers, rebates and tax incentives.¹⁹ This work must begin immediately with results ready in time for the next spending review, as without this element the wider programme will not succeed.

Economic and social benefits and costs

Government analysis shows that for every 10,000 additional disabled people in full-time work, fiscal savings reach around £180 million per year, rising to £280 million when wider social benefits are included.²⁰

Fiscal cost

The Government has already committed to spending an extra £2.2 billion on employment support over the next four years, with spend reaching an extra £1 billion per year in 2029/30. This would almost double spending compared to 2023-24, and be the highest in at least 25 years outside of a recession. It would be a substantial investment. The issue here is not additional spending; it is the profile of spend, which needs to be more ambitiously frontloaded (see table for current plans). How the support is designed and delivered is also crucial.

Profile of spend on new employment support announced by DWP in June 2025:²¹

Year	2025/26	2026/27	2027/28	2028/29	2029/30
Additional spend (£bn)	0	0.2	0.4	0.6	1.0

Political advantages and risks

The attempts at welfare reform in 2025 demonstrated a lack of appetite for blunt cuts to benefit amounts – both among parliamentarians and the public. This points to the need for a different approach and narrative. This agenda offers a progressive means of speaking to the public and political concern about welfare spending. It shifts the focus onto structural issues - such as the lack of good jobs and well-designed employment support for disabled people – as a driver of greater need in the system. Recent public attitudes research shows this narrative is supported by the public, twice as many of whom want government to tackle the underlying causes of people’s need to claim benefits (59%) rather than restrict eligibility (20%) or cut benefit rates (8%).²²

Implementation and timetable

As the support offer expands, it must be delivered through trusted community organisations rather than Jobcentres, enabling the focus to shift from monitoring and compliance to support needs. Responsibility for the design of employment support should be rapidly devolved to combined authorities in England, so it can be better connected up with other forms of support, such as healthcare, training and financial inclusion.

At the local level this should include the development of services to broker workplace changes and help employers to make these changes when they hire a disabled worker. This support should continue for 6 months after someone starts a new job. At the national level the Mayfield Review rightly highlighted the need to gather evidence on the design of employer incentives to take on and retain sick or disabled workers – such as procurement levers, rebates and tax incentives.²³ This work must begin immediately with results ready in time for the next spending review, as without this element the wider programme will not succeed.

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9. Housing

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Introduction and rationale

England's housing market is in a state of crisis. Record levels of homelessness and overcrowding, persistently high rents, deepening wealth inequalities, and homes that are unaffordable to heat are symptoms of a system that is not fulfilling its purpose of providing decent, affordable homes for all citizens. Successive governments have pledged to solve the crisis, mainly through large-scale, market-led new build, but private developers have little incentive to build at rates that would bring prices down,¹ and, even if they did, it is not clear that England has the industrial capacity and labour required to meet these ambitious building targets. Meanwhile, current high interest rates – which may go even higher if the inflation shock from the Iran war is severe – have led to a collapse in residential construction.²

Even if these constraints could be overcome, the evidence suggests that expanding the housing stock – without addressing deeper structural and distributional problems – will have only a modest effect on housing affordability. The government's own models suggest that a 1% increase in the housing stock reduces house prices by 1.5-2%. This means that even if we had built 300,000 homes every year for the last three decades, house prices would still have risen by 134% in real terms (they have actually risen 151%).³

The three policies proposed below address these structural problems directly. Each intervention is valuable in its own right but, combined, they form a coherent and mutually reinforcing strategy for tackling the chronic shortage of affordable, secure, and energy efficient homes.

Rent controls address the immediate affordability crisis facing renters, save government significant sums in housing benefit, protect tenants from having retrofit costs passed on as higher rents — making them essential to the success of the government's tighter EPC requirements — and open up the opportunity for rapid tenure shift by triggering an increased rate of landlord exit. The proposed public housing development corporation (PHDC) could use the resulting fiscal savings to acquire properties systematically as landlords exit, upgrading and retrofitting them into permanently affordable homes for social rent. A carefully calibrated capital gains tax on non-primary residences raises additional funding for this programme, creates fiscal space for a preferential reduced rate where landlords sell directly to first time buyers, registered providers or housing cooperatives, and gives the government a crucial lever to manage the pace of landlord exit; by setting the rate higher than its long-run intended level, the government can signal its intention to reduce the rate in future and slow sales if exit becomes disorderly. A higher CGT rate also discourages new speculative purchases, relieving the competitive pressure first-time buyers face from landlords and second homeowners alike. Meanwhile, the PHDC would also use compulsory purchase powers and 'use-

it-or-lose-it' provisions to directly unlock land currently stalled by speculative holding or slow build-out rates.

1. Rent controls

Context and current policy

For private renters in the lowest income quintile, rents consume 63% of household income.⁴ New supply alone cannot fix this: even if the government met its ambitious 1.5 million homes target by 2030 – which trends suggest it won't – the rent-to-income ratio would fall by just 1 percentage point.⁵ Expanding housing subsidies would leave many who are ineligible behind⁶ and is politically difficult given the government already pays £13.4 billion annually to private landlords in housing benefit – and already has the highest level of housing subsidy spending as a share of GDP (1.4%) in the OECD.⁷ Rent regulation is the only policy that can realistically address the crisis facing private renters, and a range of progressive think tanks are now advocating for it.⁸ It is also essential to the success of the government's own retrofit agenda: without limits on rent increases after energy efficiency works, landlords will simply pass upgrade costs on to tenants — even where those costs are met by public grants — undermining the fuel poverty goals the EPC regulations are designed to achieve.⁹

Proposed policy

In the short term, rent regulation could take the form of a freeze or a 'triple lock' (increases capped at the lower of inflation, wage growth, or 2.5%). Longer-term, a more sophisticated model could introduce caps based on property quality, location and size. Crucially, controls must be property-linked rather than tenancy-linked: within-tenancy-only controls create large gaps between older and newer tenancies, incentivising subletting and back-handers to landlords.¹⁰

Economic and social benefits and costs

To illustrate the benefits that could flow from rent controls, if rents had been frozen in England in November 2022 – and the link between Local Housing Allowance (LHA) caps and the cheapest 30% of local rents restored – the average renting household would save £2400 in 2026-7, and disposable income for renting households in the poorest quintile would be 22% higher, lifting around 170,000 out of poverty.¹¹ Rent controls would also provide essential protection for tenants in the context of tighter EPC requirements, preventing retrofit costs from being wholly passed on through higher rents.

Fiscal cost

Rent controls would reduce the housing benefit bill significantly. For

example, rents frozen in November 2022 would now be 20% cheaper – enough to relink LHA to the 30th percentile while saving £2 billion annually in housing benefit in England alone.¹²

Political advantages and risks

Polls show that rent controls have overwhelming public support, including from a strong majority of Conservative voters and almost half of landlords.¹³ There is also widespread support for shrinking the private rented sector (PRS) in favour of social renting and home ownership – a shift that rent controls would help facilitate.

A new analysis of HMRC data reveals that if rents were 20% cheaper, mortgaged landlords would have average pre-tax profit margins of 64% (before considering capital gains), which is four and a half times the average pre-tax profit margin of UK businesses.¹⁴ Profit margins would be even bigger for landlords without a mortgage, who make up around 58% of all individual landlords, according to HMRC data. At most, 5.5% of PRS properties would become unprofitable, when looking at rental income alone. However, capital gains mean that almost all landlords would have overall positive returns.¹⁵ Moreover, in just ten years, the government would have saved enough in housing benefit to support social housing providers to purchase around half of these homes, and convert half of those to social rent.¹⁶ If the rate of landlord exit is too fast, the government could temporarily increase capital gains tax on investment properties, and signal that it will bring it down in future, to slow the rate of exit. We also recommend an increase to the notice required for a no-fault eviction to six months, as already exists in Wales.

Implementation and timetable

Rent regulation would require an Act of Parliament. It could be implemented within this parliament, and provide immediate relief for renters, and government savings.

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2. A public housing development corporation: scaling the supply of social housing

Context and current policy

Government policy on social housing remains heavily reliant on private developers and housing associations, supported by grant funding and planning permissions. Compulsory purchase powers exist, but are used sparingly and often involve lengthy processes. The Labour government's New Towns Programme (NTP) marks a step in the right direction towards a more strategic land assembly process, but is currently limited to seven locations (reduced from twelve). Without clarity on funding and a move away from the public-private partnership model, the 'hope value' provisions in the Levelling Up and Regeneration Act 2023 will remain largely ineffective. The establishment of development corporations able to borrow outside of the government's fiscal rules would enable them to commit to directly funding land acquisition and development via public borrowing. As it stands, there is no public institution tasked with systematically assembling land, enforcing build-out, or directly delivering housing at scale.

The government has already established elements of a policy framework enabling acquisition of existing housing and the delivery of new affordable homes, but these tools remain fragmented and

underfunded. The Homes England Affordable Homes Programme (AHP) 2021–26 allows limited acquisition and refurbishment of empty homes. Meanwhile, reforms by the Ministry of Housing, Communities and Local Government (MHCLG) have expanded the flexibility with which local authorities can deploy Right to Buy (RTB) receipts. The Local Authority Housing Fund and London’s Greater London Authority Council Homes Acquisition Programme (CHAP) show that acquisitions can work at scale, but the new Social and Affordable Homes Programme 2026–36 still treats acquisitions of existing homes as exceptional.

Proposed policy

The central proposal is to establish a publicly-owned national housing development corporation (PHDC) within Homes England but operating through regional and local delivery bodies, combining two currently separate functions: acquisition of existing housing stock and assembly, and development of land for new social-rented homes.

On acquisition, the corporation would systematically purchase properties – including long term empty homes, former Right To Buy properties, and substandard private rented sector homes that come onto the market – and convert them into permanent homes for social rent, prioritising homes that reduce local reliance on temporary accommodation.

On land assembly, the corporation would use compulsory purchase powers more assertively to unlock stalled or underdeveloped sites, supported by ‘use-it-or-lose-it’ policies requiring developers to build within a defined timeframe or lose control of the site. These powers would enable the corporation to unlock land that is currently constrained by speculative holding – ‘land banking’ - or slow build-out rates. The new London Plan makes some tentative steps towards such an approach, with higher council taxes being levied on undeveloped plots but full planning revocation powers are needed given the scale of the housing crisis.

Institutionally, the model would combine national and regional coordination. Homes England would provide strategic oversight and funding, the PHDC would work with mayoral combined authorities and local development corporations, local authorities and housing associations as key partners on delivery. Funding would draw on Homes England grants, retained Right to Buy receipts, Housing Revenue Account borrowing and the National Housing Bank (NHB), whose borrowing would sit off the public sector balance sheet under the Public Sector Net Financial Liabilities accounting definitions. To scale in the medium term, the corporation would issue long-term (40-50 year) debt backed by hypothecated rental income, creating a self-sustaining investment model.¹⁷ (A similar model is proposed in the Good Growth chapter of this report.)

Economic and social benefits and costs

Acquisition enables rapid expansion of social housing – within months – addressing the homelessness crisis directly. Temporary accommodation now costs £2.8 billion (2024–25), housing over 120,000 households at £17,000–£23,000 per household per year. Acquisition subsidies of approximately £120,000–£150,000 per home break even within roughly five to seven years.¹⁸ Even converting long-term empty homes can be around 20% cheaper than new-build.¹⁹ More assertive use of compulsory purchase and ‘use-it-or-lose-it’ policies would reduce land banking, allow the public sector to capture more land value uplift, and reduce the cost of housing delivery.

Expanding the social housing stock would also reduce housing benefit payments to private landlords. Because the programme creates income-generating assets, it should be classified as long-term public investment, and as such be neutral in relation to a revised definition of Public Sector Net Financial Liabilities (PSNFL) discussed in the Good Growth chapter of this report. Socially, the policy would improve housing quality and tenure security. Acquired homes can be retrofitted to modern energy efficiency standards, contributing to decarbonisation goals and reducing fuel poverty.

Fiscal cost

Private rented sector acquisition subsidies vary substantially by region, but weighting by each region's share of England's private rented stock produces an England-wide indicative subsidy of approximately £187,000 per property for converting to social rent, £138,000 for ‘affordable’ rent.²⁰ A £10 billion capital programme could therefore convert approximately 62,000 homes into social or affordable ownership.

These figures should be understood in the context of asset creation. The programme would generate income-producing stock and reduce long-term welfare and temporary accommodation costs.

Political advantages and risks

Politically, the proposal offers visible, relatively rapid delivery within electoral cycles and addresses housing affordability, homelessness, and the cost of living simultaneously. By targeting empty homes and stalled development sites, the policy can be framed as a pragmatic efficiency, rather than state expansion.

The main risks are resistance from developers and landowners to compulsory purchase and ‘use-it-or-lose-it’ mechanisms, and the time needed to build institutional capacity at scale.

Implementation and timetable

Much can be implemented through changes to departmental policy: expanding Homes England's mandate to include large-scale acquisitions, direct development, and proactive land assembly; revising MHCLG funding rules to make acquisitions routine rather than exceptional; streamlining compulsory purchase processes; and introducing statutory 'use-it-or-lose-it' provisions for land development.

Loosening Housing Revenue Account borrowing constraints, and enabling devolved combined authorities to run acquisition programmes with multi-year capital settlements would also be important.

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3. Raising Capital Gains Tax on investment properties to support tenure shift

Context and current policy

The prospect of capital gains has driven speculative property ownership at the expense of first-time buyers.²¹ English landlords collectively accumulated over £400 billion in real property wealth between 1990 and 2022²² – a substantial windfall that ought to be more

broadly shared. Recent analysis confirms the vast majority of landlords are earning supernormal returns, with capital gains accounting for 58–69% of mean total post-tax returns.²³ There is already a strong case for equalising CGT rates with income tax,²⁴ but there is a separate case for going further on residential investment property.

Proposed policy

The government should set CGT rates on residential investment properties above the income tax equivalent. Between 2016 and 2024, a deliberate surcharge kept CGT on residential property 8 percentage points above other assets. This was narrowed by the Conservatives in March 2024 and fully removed by Labour in October 2024. We propose restoring it for four reasons: to better share out unearned wealth; to rebalance investment incentives away from speculative property ownership; to give the government a lever to manage the pace of tenure shift if rent controls are introduced; and to create fiscal space for a preferential reduced rate where landlords sell directly to registered providers or cooperatives. We recommend that an investment allowance be made available to residential landlords to offset against their tax bills annually rather than only at the point of disposal, easing cash flow pressures without reversing the progressive Section 24 changes.²⁵ This should sit alongside the broader CGT base reforms proposed in the Taxation chapter of this report — the removal of uplift at death and deemed disposal on departure — to prevent landlords claiming annual relief against a tax bill that never materialises.

Economic and social benefits and costs

The vast majority of housing landlords are earning supernormal returns –compared both to a standard 60/40 equity-gilt portfolio, and to the broader real estate sector.²⁶ Raising capital gains tax would correct these distorted incentives and discourage the speculative demand that has contributed to unaffordable house price inflation. By setting CGT on residential properties above the rate on other assets, the government also creates fiscal space to use it as a lever to support managed tenure shift.²⁷ First, if rent controls lead to a disorderly withdrawal of landlords, the government could signal its intention to lower the rate in future, slowing exit to a manageable pace. Second, if this lower rate is reserved specifically for properties registered on the new private rented sector database for a minimum period, it would also create an incentive for second home-owners and short-term lets to convert their properties into long-term lets well ahead of any intended sale – expanding the supply of rental housing. Third, a higher rate creates fiscal space for a preferential reduced rate where landlords sell directly to first time buyers, registered providers or housing cooperatives rather than on the open market, rewarding socially beneficial exits without undermining the overall revenue and incentive effects of the higher headline rate.

Political advantages and risks

Fiscal cost

The measure would be revenue-positive, but the forecast revenue would depend on landlords' responses to the combined new rate of CGT, investment allowance and the other provisions set out in the Taxation chapter of this report.

The property surcharge can be framed as restoring a differential that even George Osborne thought prudent. The first-time buyer framing offers a compelling political message with broad electoral appeal. The investment allowance can be framed positively as a measure that helps landlords manage cash flow. A higher rate on directly held property would encourage incorporation among higher-rate taxpayers. However, the combined burden of SDLT on transfer and dividend tax on extraction makes incorporation unattractive for most landlords. This risk should be monitored.

Implementation and timetable

The measure would need to be implemented without prior announcement, to avoid triggering a wave of pre-emptive sales and a spike in evictions. It is compatible with amendment of the CGT proposal in the Taxation chapter of this report.

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10. Social Care

Sebastian Rees, IPPR

Introduction and rationale

One of Andy Burnham's first commitments as Prime Minister has been the reform of adult social care in England.¹ He has good reason to make this a priority. The cost of failure in the current system is enormous: millions of people struggle to get the care they need; families are pushed to breaking point trying to provide it themselves; people who have worked and saved for decades can face catastrophic costs when they become ill or frail; and councils are struggling to keep a system under mounting financial pressure afloat.²

But the Prime Minister will also be painfully aware that he is far from the first political leader to promise reform. His own proposal for a National Care Service, developed when he was Health Secretary, failed to survive contact with the 2010 General Election. Since then, successive governments have tried and failed to reform social care – from Andrew Dilnot's proposed cap on catastrophic costs under David Cameron, to Theresa May's 'dementia tax', to Boris Johnson's abandoned health and care levy.

The failure of reform is not hard to understand. There is no route to genuine transformation in adult social care which does not require additional investment. But that immediately raises difficult questions about what a fair settlement looks like, and who should pay for it – particularly in a system used overwhelmingly by people who are above working age or unable to work. Social care also lacks the public salience, understanding and visibility of other public services, particularly its close neighbour the NHS. Many assume that if they or a family member requires care, the state will provide it, only to discover, often at a moment of considerable vulnerability, that this is not the case.

The biggest challenge, however, is that there is no single 'fix' for the myriad problems facing adult social care. Too many people cannot access the care they need; and where care is available, quality can be variable and often fails to support people to live independently and well. The formal care workforce is chronically difficult to recruit and retain, with low pay and limited progression contributing to high turnover; and providers face persistent financial pressure, with fragile margins and a market in which councils often struggle to pay enough to sustain quality provision. Millions of unpaid carers fill the gaps left by the formal system, often at significant personal cost; and poor integration between the NHS and social care heaps pressure on both systems.

These problems are deeply interconnected, and solving any one of them will require sustained policy attention. But to build the political momentum for long-term reform, we should start with the most visible failures of the current system: access and affordability.

1. Free personal care in England

Context and current policy

Under the current system, access to publicly funded social care is determined by both need and means. People must have sufficiently high care needs to qualify, and sufficiently few financial assets – less than £23,500 in total – to receive any form of state-funded support. Those who fall outside either threshold are left to pay for care themselves, rely on family and friends for support, or go without.

This basic settlement has changed little over many decades, despite clear alternatives being proposed. In 1999, the Royal Commission on Long Term Care, chaired by Sir Stewart Sutherland, recommended that personal care should be provided free, while accommodation and other living costs remained means-tested.³ England did not adopt the recommendation, but Scotland did, introducing free personal care for people aged over 65 in 2002, and extending the entitlement to all adults with eligible needs in 2019.

Attempts at reform in England have tended to focus on limiting the risk of catastrophic care costs for individuals and families. In 2011, an independent commission led by Andrew Dilnot recommended a £35,000 lifetime cap on social care costs, alongside an upper capital threshold of £100,000 for means-tested support.⁴ The subsequent Care Act legislated for a £72,000 cap, which was delayed and ultimately abandoned. Both the May and Johnson governments subsequently tried to revive the idea in different forms, only for their proposals to be dropped under political pressure.

Proposed policy

Reforms focused on capping care costs aimed to make the existing system less financially punitive. However, implementing free personal care in England would change the settlement more fundamentally.

The government should introduce a universal entitlement to free personal care for everyone assessed as having a defined level of eligible need, regardless of age. Once someone reaches the eligibility threshold, their personal care should be provided free, regardless of their income, savings or assets.

The entitlement would cover defined personal care needs, such as washing, dressing, eating, taking medication and mobility assistance. It would not cover accommodation or ordinary living costs, which would remain the responsibility of the individual and their family (with assistance from the state where eligible). Nor would it automatically extend to all forms of practical support, such as shopping or cleaning. The aim is not to make all social care free, but to remove charges for

the essential personal care that people require to live safely and with dignity.

The precise needs threshold for support should be set nationally, but the principle should be clear: once someone reaches the eligibility threshold, their personal care should be provided free, regardless of their income savings or assets. The entitlement should be nationally funded, as discussed below, so that access does not depend on local resources. However, commissioning and delivery should remain locally rooted, with upper tier local authorities responsible for commissioning sufficient provision to meet the new entitlement. Funding should follow demand, so that areas with greater need are not disadvantaged by a fixed funding allocation.

Scotland has operated a version of this model for more than two decades and its experience provides both a proof of concept and important lessons for England. The Scottish experience should inform the detailed design, particularly the definition of personal care. The boundary between personal care and other forms of support can be difficult to draw in practice, and England should avoid reproducing the ambiguities that have created problems in Scotland.

Economic and social benefits and costs

Free personal care would directly reduce unmet need and the financial risk faced by people who develop significant care needs. People would no longer have to exhaust their savings or rely on family members to meet the cost of essential personal care. Creating a universal entitlement to care would move England from having one of the most threadbare social care systems among high-income countries towards the standards of its international peers.

Free personal care would also reduce the huge physical and mental health burden placed on unpaid carers. Caring can have a profound impact on carers' mental health and wellbeing: 74 per cent report feeling stressed or anxious, 40 per cent feel depressed, and 35 per cent describe their mental health as bad or very bad.⁵ There are strong economic reasons to reduce this burden too. According to Carers UK, around 2.6 million people have left paid employment to provide unpaid care.⁶ Reducing the amount of essential personal care that families have to provide could enable some carers to remain in or return to paid work, increasing household incomes and labour supply.

It could also relieve pressure on the NHS. Around 13 per cent of hospital beds are occupied by people who are medically fit to be discharged but require social care support.⁷ Better access to care, particularly care at home, could reduce delayed discharges and free hospital capacity for people who need acute treatment. It could also reduce the risk of people being admitted to hospital because the care they need is

unavailable in the community. Poor access to social care has costs well beyond the social care system itself.

There would, however, be relatively significant upfront costs (detailed below) to expanding access to care. The policy would transfer a larger share of the cost of personal care from individuals and families to the state, while potentially creating additional demand for formal care. Implementation would therefore need to be phased alongside investment in workforce and care capacity.

The trade-off is ultimately straightforward: government would take on more of the cost of care, but in return reduce unmet need, protect families from potentially catastrophic costs, reduce the burden of unpaid care and ease pressure on the NHS.

Fiscal cost

The precise cost of an all-age entitlement would need to be established through detailed government costing. Existing estimates suggest that a Scottish-style model of free personal care for people aged 65 and over would require around £6.5 billion in additional spending in 2026/27 terms, rising to around £7.5 billion by 2035/36.⁸ An all-age entitlement would cost more, reflecting the additional number of working-age adults who would become eligible for publicly funded personal care.

The cost would nevertheless be substantially lower than making all social care free at the point of use. Recent estimates put the additional cost of an NHS-style model of universal and comprehensive care at around £18.5 billion extra in 2035/36.⁹ Free personal care therefore offers a significant expansion of the social care settlement without the significantly higher costs associated with making the state responsible for accommodation and other living costs.

The proposal here is that the cost of free personal care should be paid for through a combination of an Income Tax contribution from people aged over 40 and a contribution from housing wealth.

As an initial illustration, a one percentage point surcharge on income tax rates for people aged over 40 would raise around £8-9 billion a year in England, before allowing for behavioural responses.¹⁰

It would apply across the basic, higher and additional rates, since individuals at all levels of income may at some time need the free personal care being paid for. The figures above are indicative rather than a Treasury costing; the precise yield would depend on the tax base, behavioural responses and interactions with the devolved tax systems.

The remainder of the funding requirement for adult social care reform could be raised from housing wealth. There are several ways this could be designed. The Government could strengthen existing deferred

payments agreements, allowing care costs to be secured against a property and recovered when it is sold or from an estate. Alternatively, it could introduce a levy on higher-value residential property or require a contribution from estates above a defined threshold. These approaches would allow housing wealth to contribute to the cost of reform without requiring people to sell their home when they first need care.

The choice between options should be subject to detailed distributional analysis, but the principle should be that housing wealth makes a contribution to the cost of a universal personal care entitlement, while people retain the security of their home when they need care.

Political advantages and risks

The central lesson of two decades of failed reform is that the politics of social care are ultimately the politics of funding. There has been broad support for a more generous system, but that support has repeatedly fractured when governments have had to decide who should pay for it. A durable settlement cannot rely on any one group bearing the costs.

This proposal overcomes existing barriers to funding reform in two ways. Firstly, free personal care creates a much clearer social contract around social care. People would not simply be asked to pay more into a system that they may or may not ever use; they would be contributing towards a tangible entitlement that they and their families could draw on if they need it. This makes the principle of social insurance more visible: everyone contributes, and everyone is protected against the risk of needing care.

Secondly, the mixed approach to funding, combining contributions from income and housing wealth, ensures that the whole burden for funding care does not fall on one particular group. The choice of the age of 40 for paying in to the care system is intended to strike a balance between fairness and the practicalities of raising revenue. By this point, taxpayers are around half way to retirement, are likely in many cases to have established careers and some accumulated assets, and are likely to have paid off or substantially reduced student loan liabilities. At the same time, they remain in the labour market and have many years left in which to contribute towards a system that will protect them against the risk of needing care later in life.

Housing wealth provides a second source of funding. Older generations are more likely to benefit from the new entitlement, but are also more likely to hold substantial housing wealth. Asking housing wealth to make a contribution therefore avoids placing the entire cost on working-age incomes. Together, the two sources spread the cost across income, wealth and generations, making the settlement fairer and more politically durable.

The Prime Minister has a rare opportunity to break with the cycle of failed social care reform. The opportunity is to offer something more ambitious than another attempt to manage the financial risks of an unchanged system: a new social contract in which everyone contributes, but no one has to pay for their essential personal care simply because they become old, disabled or ill.

Implementation and timetable

The groundwork for reform should be laid during this Parliament, with the new entitlement and funding settlement ready for implementation following the next general election. Given the government's commitment not to increase taxes during this Parliament, the new Income Tax contribution should not take effect before the next election.

Stage One – this Parliament

- Legislation for the new settlement, establishing a national, all-age entitlement to free personal care and setting out the framework for implementation.
- Definition of the entitlement, including a clear national definition of personal care and eligibility threshold, drawing on Scotland's experience and engagement with the sector.
- Agreement of the funding model, including the income tax and housing wealth contributions, and publish detailed costings and a timetable for implementation.
- Beginning of the expansion of capacity, including through action on workforce recruitment and retention, provider sustainability and local commissioning.
- Establishment of national funding and local delivery arrangements, with upper tier local authorities responsible for commissioning sufficient care to meet the new entitlement.

Stage Two – following the next General Election

- Introduction of the new funding contributions and beginning the transition to the new settlement.
- Phasing-in the entitlement, beginning with people with the highest levels of need and progressively extending it to everyone meeting the eligibility threshold.
- Review of the new system after the first phase of implementation, including its costs, impacts and operation.

- Consideration of the future of means-tested support, including whether the existing arrangements for accommodation and other living costs remain appropriate and whether a cap is needed on costs outside the free personal care entitlement.

Notes

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11. The Caring Economy

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Women's Budget Group**

Introduction and rationale

A caring economy is one which has the wellbeing of individuals, communities and the planet at its centre; which values care, both paid and unpaid, as the activities that nurture us all; which ensures that no-one faces discrimination, violence, or poverty; and in which no-one is left behind, or pushed behind.

Mainstream economics and economic models have long overlooked or sidelined the contribution to the economy of unpaid care and domestic work. But caring is fundamental to our human existence. We have all needed and will likely need again to be cared for, and most of us will provide care at some point in our lives.

Reactionary political forces manipulate people's fears and experiences of an uncaring world to advance regressive policies in the guise of promoting and supporting families. Progressives need to directly address support for families to choose when and how to have and raise children and to balance paid and unpaid care work, including for older and disabled relatives.

A separate chapter in this report sets out a proposal for social care reform, focusing on free adult personal care. We have therefore set out three other policy proposals to support investment in the care sectors, which are foundational to a healthy economy as well as responding to current challenges such as threats from the far-right, the impact of AI on the labour market and the impacts of climate change and ecological breakdown. Care is by its nature a labour intensive, relational activity which is inherently low carbon.

1. Social infrastructure: putting care at the heart of fiscal policy

Context and current policy

'Social infrastructure' is the system of provision of care services, including health, education and social care. While the term is sometimes used to mean just the physical infrastructure where these public services are provided, it should refer to both the physical infrastructure and the equipment, supplies and staff who are crucial to the delivery of these services. It is evident that investing in these services provides a long-term economic return. It should therefore be considered a form of economic investment.

Rachel Reeves as Chancellor adjusted the definition of debt in her fiscal rules to allow more borrowing and spending. However, maintaining the 'stability rule' meant the government could only borrow for capital

spending. Higher capital spending along with some tax increases have enabled more spend on public services, which has been welcome, but it has not been enough to undo the years of damage under austerity, the pandemic, or the impact of geopolitical instability since the election.

Proposed policy

First, a broad change in the fiscal framework would be to recognise social infrastructure as an investment wherever it generates measurable long-term returns, just as physical infrastructure does. The Treasury should create a new category of '*investment spending*' alongside the existing categories of current and capital spending. Second, 'investment spending' should not be considered as within the current account, and should therefore not be subject to the 'stability rule'. The fiscal framework would also need to be adjusted to allow higher debt until the positive returns of investment are realised.

We recognise that changing international accounting systems so that spending on social infrastructure is treated as investment may be difficult. However, there are precedents, including on defence spending. Single use items, such as ammunition and missiles, are categorised as capital spending when they are acquired and as day-to-day spending when used. However, there is an exception for some types of ballistic missiles (single-use items) that 'are regarded as providing an ongoing service of deterrence'¹ and are therefore classified as fixed assets. In other words, a single-use item is considered to provide an ongoing service and classified as a fixed asset, making it eligible for borrowing within the current fiscal rules framework. With a similar logic, the costs of providing teaching in schools and healthcare in health centres, including staff costs, could be regarded as providing an ongoing contribution to a higher educated and healthier population, with longer-term socioeconomic benefits.

Work will need to be done to establish the expected returns from investment spending in each case (including the proposals below), and we would propose these changes are made in tandem with higher and more progressive tax policies and greater coordination between the Treasury and Bank of England to reduce the cost of government debt and borrowing, as set out elsewhere in this report.

In the proposals below, we recommend some level of spend be categorised as investment spending to allow for borrowing for the expansion of these sectors in line with broader macroeconomic policy and in recognition of the economic benefits.

Economic and social benefits and costs

Adjusting the fiscal framework to support investment in social infrastructure would recognise the crucial role these sectors play in the economy. The mainstream economic view, reflected in the government's

current approach, asserts that we need the economy to grow before we can spend on public services. But it is clear that, in the short and long term, a healthy economy relies on a healthy, well cared for, well educated population.

While we have NHS waiting lists, unmet care needs and unaffordable childcare, the people affected are less able to engage in the labour market and are more likely to rely on unpaid care and on social security. Women are the majority of those who work in the public sector, who use public services for both themselves and the people they care for, and the majority of those who provide unpaid care and domestic work when the state cuts back. Women are therefore triply disadvantaged by underinvestment in social infrastructure.

Work by the Women's Budget Group has demonstrated that investing in the care economy creates twice as many jobs as investment in the construction industry and is more effective in reducing public deficits and debt than austerity policies: it boosts employment, earnings and economic growth and fosters gender equality.²

Fiscal cost

In itself the measure would have no cost. It would encourage higher current spending in these fields.

Political advantages and risks

The voting public expected Labour in government to increase taxes and spend more on public services.³ According to Ipsos polling, 73% of adults in England where local elections took place in May 2026 thought public services had worsened in the past five years and 55% thought services in their area had got worse. Of those, 59% blamed the incumbent council and 57% blamed the Labour government.⁴ YouGov polling published ahead of the Autumn budget last year,⁵ found that the public thought the economy was in a poor state and that the government was handling it badly. While there is generally low support for higher personal taxes, this is ameliorated if it is specified that the income will be used to increase spending on public services.

Adjusting the fiscal framework to allow for greater social infrastructure spending (in combination with progressive tax increases) would provide reassurance over the handling of the economy with a clearly articulated rationale for investment in areas of public spending for which there is support.

Implementation and timetable

As a change simply in the categories of government expenditure which would be counted as 'investment spending' in the public accounts and under the fiscal rules, the measure could be taken immediately. If the

political risk were judged too great, this proposal could be referred to the Fiscal Commission proposed in the Fiscal and Monetary Policy chapter of this report.

Further information

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2. Universal free childcare

Context and current policy

Early education and childcare are a vital part of the social infrastructure. They are among the essential services necessary for our society and economy to function, delivering benefits to children, families, and the broader economy. But the early education and childcare system in England is not currently working: for children, parents, workers or the wider economy. While the latest expansion has reduced costs for many parents, it has not resolved the lack of flexible, affordable, and high-quality early education and childcare, which remains a significant barrier to positive child outcomes, tackling inequality, and increasing women's employment.

The previous Conservative government committed to a significant expansion of government funded early years provision, promising working parents 30 hours childcare during term time (38 weeks a year) for children aged nine months to four years. Labour in opposition commissioned a review of early education and childcare (the Bell review), but it was never published. The Starmer government implemented the roll out of the 30 hour offer, with the addition of capital funding to expand school-based nurseries.

With the government now purchasing 80% of childcare places in England,⁶ the previous model of privately purchased hours cross-subsidising 'free' places is unsustainable. The IFS estimated that providers' costs of delivering places for 3- and 4-year olds were 19% higher in 2025-26 than in 2017.⁷ While the Government has increased rates by close to 5% for 2026-27, it is not enough to make up the shortfall. The Government's estimated budget for early years in 2026-27 is £9.5bn.⁸

Proposed policy

The policy being proposed here is the expansion of early education and childcare towards a universal, high-quality system, free at the point of use, with fair funding, improved workforce pay and qualifications, and equal access for all children regardless of parents' employment, training or immigration status.

Economic and social benefits and costs

Investment in early education and childcare, part of our vital social infrastructure, has huge potential to boost the economy, support children's development, help families and contribute to a gender equal economy. Women's Budget Group modelling has evidenced that investment in early education and childcare creates two and a half times the number of jobs as the same investment in construction, and yields greater tax returns to the Exchequer as well as reductions in spend on social security benefits as it enables more parents – usually women – to work additional hours.⁹

Fiscal cost

The first stage would require an estimated £12bn in this parliament. This includes £800m a year to increase funding rates for 3- and 4-year-olds by 19%; £1.4bn to increase wages to above the Real Living Wage, improve qualifications and training and increase SEND expertise; and a ballpark net additional cost of £9.7bn to equalise access to funded hours for all children regardless of parents' employment, training or immigration status. (This is based on population data and DfE take up rates for each age group.)

The second stage would expand provision to a universal, high-quality childcare system, free at the point of use for every child and available for 40 hours a week, 48 weeks per year. Based on previous Women's Budget Group modelling, uplifted in line with inflation, this would require annual investment of £53bn a year. Between 61% and 72% of the costs could be recouped through direct and induced employment, creating around 942,000 jobs, around 80% of which are likely to be taken up by women.¹⁰

Political advantages and risks

The recent expansion of childcare places has reduced the salience of a universal offer. However, childcare (along with parental leave) provides an opportunity to highlight support for families from a progressive standpoint and demonstrate a clear dividing line with and counter to far right populism. A progressive platform offers genuine support for families to make real choices about balancing work and raising a family. The Early Education and Childcare Coalition's 2025 polling carried out by More in Common found that 69% of the public think investing

in childcare is good for the country (not just parents), 15% of parents had quit their jobs due to childcare challenges, and 32% had borrowed money from family/friends or taken out a loan/credit card to pay for childcare.¹¹

Implementation and timetable

The policy could be implemented in two stages, within this Parliament and the next.

Stage One – by the end of the present Parliament

- Establishment of an independent National Early Education and Childcare Commission to make recommendations on fair funding rates, expansion of inclusive provision for children with SEND and tackling ‘childcare deserts’.
- In the first budget: Increase in funding rates for 3- and 4-year-olds by 19% to make up the shortfall since 2017, making the national average rate £7.87ph, up from £6.61 in 2026-27. This would cost £800m a year.¹²
- By April 2028: Increase in wages to above Real Living Wage, improvement in qualifications and training and increase in SEND expertise: cost £1.4bn a year.¹³
- By April 2028: Equalisation of access to funded hours for all children, regardless of their parents' employment, training or immigration status. The ballpark cost for this is £9.7bn net additional annual cost on top of the current budget of £9.5bn in 2026-27.¹⁴
- Introduction of a legislative framework for Fair Pay Agreements and an Early Years Negotiating Body based on the adult social care framework. This should establish a pay structure that rewards higher qualifications and career progression.

Stage Two – 2029-34

- Expansion to a model of universal and high-quality childcare, free at the point of use for every child and available for 40 hours a week, 48 weeks per year, recognising the importance of early education and childcare for children, parents and the wider economy.

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3. Support for new parents

Context and current policy

Under the Employment Rights Act, paternity leave and unpaid parental leave have become a day one right, ending the qualifying period. The Government is reviewing the wider maternity, paternity and parental leave system in line with Labour's manifesto promise to do so (within the first year of government), but has not indicated yet what changes are planned or by when.

Statutory maternity and paternity pay rates in the UK are, in relative terms, among the lowest in Europe. Maternity leave provision is up to 52 weeks of leave, 39 of which can be paid (6 weeks at 90% of earnings and 33 weeks at a statutory rate of £187.18 per week). Statutory Paternity Leave, on the other hand, comprises a 2-week entitlement paid at statutory rate of £187.18 per week. The statutory pay is less than half the minimum wage, and low income and self-employed fathers are far less likely to take paternity leave than middle and high earners.

In addition, Statutory Maternity Allowance (SMA) is treated as 'unearned income' and subject to a pound-for-pound deduction from the Universal Credit (UC) award, while Statutory Maternity Pay (SMP) is treated as earned income and is mostly retained under the work allowance and taper rate.

Each type of leave (maternity, paternity and parental) has a unique function. Maternity leave includes recovery from birth and establishing breastfeeding (if wanted and possible). Paternity leave includes supporting women recovering from birth and bonding with the baby. Parental leave is for parenting.

The current system of shared parental leave is, in effect, a transfer of maternity leave to fathers and second parents resulting in low take up rates. International evidence indicates that individual entitlements for parents most effectively support take-up by fathers and the sharing of care.¹⁵

Proposed policy

The proposed policy is to improve maternity, paternity and parental leave so that parents have better-paid, individual entitlements, with particular focus on supporting fathers and second parents to take leave and enabling a more equal sharing of care.

Economic and social benefits and costs

The single largest cause of the gender pay gap is the impact of women's working patterns changing when they have children. The current balance of leave and pay entitlements incentivises heterosexual couples to maintain and reinforce outdated gender roles whereby women take much longer out of the labour market and are then more likely to work part-time for longer in lower paid roles impacting their income, savings and pension contributions and leaving them with less bargaining power in both the home and workplace. Parental leave policies are one of the few levers governments have for supporting the more equal sharing of care in the home.

Women's Budget Group analysis with the Centre for Local Economic Strategies (CLES) found that equalising women's rate of economic activity with men's could add £94.9bn GVA a year to the British economy.¹⁶ Analysis by the Joseph Rowntree Foundation and the Centre for Progressive Policy (now Growth and Reform Network) published in April last year, estimated extending Statutory Paternity Leave to 6 weeks at 90% of a father's average weekly earnings could deliver £2.68 billion to the wider economy.¹⁷

Fiscal cost

The first stage would cost an estimated £2.6bn in this parliament: around £600m a year net to increase pay for existing entitlements to the National Living Wage and create parity between Statutory Maternity Pay and Maternity Allowance under Universal Credit rules; up to £1.1bn per year net to increase paternity leave and pay; and around £900m to improve maternity leave pay. The second stage would have an estimated upper-limit additional cost of up to £2.3bn per year.¹⁸

Political advantages and risks

Along with support for childcare costs, ambitious policies for improving parental leave, particularly paternity leave, expose and counter reactionary political aims. Increasing support for fathers also provides an opportunity for communicating the importance of their role in families while addressing gender inequalities and offering real choices to parents struggling with the cost of living. There is broad public support for improving parental leave support. Working Families polled parents in areas with marginal seats in England and Wales in 2024 and found that 92% said it was important for new fathers and partners to take time off to care for their baby in the first year, and 67% said they'd be

more likely to vote for a candidate or party that promised better leave and entitlements.¹⁹

Implementation and timetable

The policy could be implemented in two stages:

Stage One – by the end of the present Parliament

- In the next budget: An increase in pay for the existing entitlements to the National Living Wage and the establishment of parity between SMP and SMA under UC rules – costing around £600m a year net, accounting for the additional fiscal revenues through direct tax and NI contributions.
- By the end of the parliament: An increase in paternity leave and pay to between four and six weeks at 90% pay with a cap of £1,200 a week, costing up to £1.1 billion per year net, taking into account increased tax revenue of £220 million (six weeks costed by the Joseph Rowntree Foundation and the Centre for Progressive Policy).²⁰
- At the same time, the first 6 weeks of maternity leave would be maintained at 90% earnings while the remaining 39 weeks would be increased to the level of the Real Living Wage. Cost (assuming around 360,000 women a year at real living wage, with 15% of them in London): £900m.

Stage Two – 2029-34

- Scrapping of shared parental leave.
- Reform of maternity leave from 52 weeks to six months (26 weeks) of non-transferable maternity leave for mothers, paid at 90% of average weekly earnings for first six weeks (no change), and at least the Real Living Wage rate for the remaining time (no change from above).
- Establishment of a six-month use-it-or-lose-it, non-transferable parental leave entitlement for each parent, paid at a flat rate linked at least to the Real Living Wage. Parents should be entitled to this leave in their own right, and have flexibility about how and when to take it, up to 18 months after birth.
- Maintenance (no change) of mothers' pay. Upper limit additional costs of six month pay to fathers: up to £2.3bn (assumes take up of current entitlement for full six months).

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12. Immigration

Beth Gardiner-Smith, Future Governance Forum

Introduction and rationale

Immigration dominates British politics. Consistently cited as one of the public's top concerns despite huge fluctuations in migrant numbers and issues over the last decade, it is an issue on which Labour has long struggled to find a comfortable voice.

For an issue of such high salience, policymaking is chronically poor – often crisis-driven and reactive, with a tendency to prioritise political signalling over evidence and delivery. Labour inherited a visa system that had allowed net migration to reach over a million, while the failed Rwanda scheme created record backlogs of asylum claims and dumped tens of thousands of vulnerable people in hotels indefinitely, unable to work.

However the crisis in public trust long pre-dated recent policy decisions. Without long-term cross-government planning, migration policy has veered between the extremes, masking chronic low pay and poor conditions in some sectors while being restricted for political purposes in others, despite clear economic needs. Short-term decision-making has dominated, while long-term structural issues such as the UK's ageing population go largely undiscussed. In asylum policy, since Labour was last in power the asylum accommodation and support system has been centralised and outsourced – stripping control and resources from local authorities and driving up costs. Communities feel disempowered and disrespected when asylum hotels are opened with as little as 24 hours' notice,¹ and vulnerable people have been left in unsuitable, poor-quality accommodation at increasing risk of attack.

At the root of much of the public concern is a sense of loss of control. Visible small boat arrivals and asylum hotels give form to the more general sense that, in a globalised and inter-connected world, national governments are powerless to control or even affect the big forces shaping our future. It is this concern that the far right is instrumentalising to undermine trust in liberal democracy and seed an increasingly extreme nativist agenda into our communities and our politics. This agenda must be strongly rejected.

Progressives are not immune from criticism – we have failed to provide a convincing vision of a better system and been too slow to respond to the deep unfairness felt in some communities. But in acknowledging the challenges in the current system, the government has too often appeared to reinforce rather than reject the right's diagnosis of its causes. It's not migrants invited here to care for our loved ones who are to blame, but the failure of successive governments to grip the issue of social care. Human rights frameworks designed to protect us all are not the enemy of democracy, but an essential bulwark against the far-right agenda that we must continue to evolve and strengthen in the face of rapid global change.

The task for progressives is to show how we can re-shape the future with the confidence of our values – whether through devolving investment and powers over asylum accommodation, long-term national planning for migration needs, or by allowing refugees to apply for asylum in Britain from abroad without the need for a dangerous journey. An agenda that places control back in the hands of people and communities, and is confident in defending liberal democratic values, offers hope and unity against the politics of division.

1. An annual migration plan

Context and current policy

In the final three and a half years of the Conservative government, net migration hit record levels. This surge is now over - new visa controls are in place, particularly for lower-skilled migration, and net migration is falling. Labour has closed the lower-skilled visa route, including for jobs in care, and narrowed the Temporary Shortage List. Net annual migration is now expected to be below 100,000, and could dip into negative figures in 2027, incidentally wiping out a large part of the Chancellor's fiscal headroom.² And yet public debate on migration has barely moved, locked in a rhetorical arms-race over numbers.

Proposed policy

The government doesn't have an answer to the question: what is the right level of migration? Nor does it have a systematic approach to balancing trade-offs in immigration policy. An annual Migration Plan, set within a 3-year planning horizon, addresses both these issues. It explains the government's aims for migration, while delivering an inclusive process that balances priorities within and outside Westminster.

An annual process would develop policy based on evidence: launched by the Prime Minister and Home Secretary like a mini-spending review, culminating in a statement to Parliament. Departments would be asked for long-term plans for their sectors and held accountable for them, linked to workforce strategies to invest in UK workforce development and address low pay issues. An annual plan would draw on independent evidence, and input from local, regional and devolved governments to ensure it is effectively balancing the needs of the whole country. Business, trade unions and civil society should also be offered input, while a deliberative process such as a citizens' assembly could help restore public trust.

Examples of annual migration planning systems include Canada³ and Australia.⁴

Economic and social benefits and costs

An annual plan allows government to take a systematic approach to migration planning – balancing the needs of industry with planning and investment in the workforce and labour markets. It would provide more certainty to employers (a single annual policy cycle), while allowing the government to successfully and systematically link wider economic and social policy objectives to migration policy.

Fiscal cost

N/A.

Political advantages and risks

Rather than appearing as a bystander when annual migration figures are released, an annual plan allows government to take control over the figures and put forward a clear vision for migration, acknowledging the real trade-offs in migration planning. It means greater government ownership of net migration figures – which is a risk – but also forces a more evidence-based process to determine that figure, so injecting a sense of control, purpose and accountability into the debate on migration. Within the policy community there is wide support for a more planned or consensus-based approach to migration policy, including from the Home Affairs Select Committee,⁵ Institute for Government⁶ and British Future / Hope Not Hate,⁷ as well as IPPR, Labour Together, Centre for Policy Studies and Onward.

Implementation and timetable

A cross-government process would be needed, led by the Cabinet Office and Home Office, akin to a spending review. The Annual Migration Plan would be an annual report to Parliament published alongside a revised three-year horizon strategy. The process could be announced and started immediately. The first annual plan could be timed to report alongside the Budget.

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2. Reverse plans to raise the qualification bar for settlement and invest in integration

Context and current policy

The Home Secretary is consulting on permanently extending the route to settlement – doubling the qualifying period for most people to 10 years, rising to 15 years for care workers and non-graduates, and 20 years for refugees. This change would apply both to those already here – changing the rules mid-match – and for those who may come in future. Trade unions have raised serious concerns about the integration and exploitation of workers tied to employers for upwards of a decade.

The purpose of these proposed reforms remains unclear: unless the government intends for large numbers of existing UK residents to leave before settling (remigration), the fiscal impact is small.⁸ As they stand the proposals risk putting off global talent from coming to the UK, and fail the common sense fairness test. It should be a red flag for the Labour Party that under the policy the child of a banker would settle after three years (the government has proposed a discount on the qualification period for higher-rate taxpayers), while the child of a care worker would wait fifteen.

If the purpose is to boost integration, English language should be made a clear priority of the government. One third of people who don't speak English well or at all are already UK citizens, while funding for ESOL in England has dropped in real terms by a quarter between 2011 and 2024.⁹

Proposed policy

The proposal is to restore the default qualifying period for settlement to five years, including for refugees, focusing instead on measures that could materially boost integration, such as investing in English language provision and requirements and citizenship acquisition. The government could address concerns over short-term benefits claims from recent arrivals by introducing 'transitional measures' and a new 'interim' Indefinite Leave to Remain status, that combined permanency of status with restrictions on accessing benefits for a further period.

Economic and social benefits and costs

The Home Office initially claimed the cost of not implementing the changes could be £10bn – a figure since challenged by economists who suggest it is closer to £600m over 10 years.¹⁰ Focusing on the individual fiscal cost of migrants also ignores the wider economic cost caused by large numbers of migrant care workers leaving the country before wider reforms to the care system are embedded. Instead focus could be directed towards the low pay and poor conditions of certain sectors

that mean all workers, whether British or foreign born, will be fiscally negative contributors. Independent analysis has also suggested that the proposed changes could keep an additional 90,000 children in poverty by 2029,¹¹ hitting the government's child poverty target. Improved language and citizenship acquisition, by contrast, are associated with a boost to wages and integration.

Fiscal cost

N/A. Changes to earned settlement are not finalised.

Political advantages and risks

While voters, including progressives, want the government to deliver greater control over migration, polling suggests voters do not support lengthy delays to settlement, particularly beyond 10 years.¹² The reforms to settlement are deeply unpopular with many Labour MPs and their constituents, and Labour-affiliated unions, in particular Unison.

There are no free lunches with migration policy: scrapping the changes is likely to be criticised by the right (although the changes were recently described by the Daily Mail as a 'gimmick'¹³). However, the focus on improving English language can also be framed as raising expectations of newcomers and tackling integration challenges within certain communities, if combined with a clear political narrative on citizenship, belonging and shared values.

Implementation and timetable

This could be done immediately.

3. Scale up the 'routes for returns' deal with Europe

Context and current policy

In 2025 the government announced a ground-breaking pilot with France that has seen the UK take asylum seekers through a legal pathway directly from France, with one person granted asylum in 'exchange' for one asylum seeker returned. The pilot was not set up at a scale that would significantly reduce the number arriving by small boat, but it has proven it is possible to operate a bespoke 'routes and returns' deal adjacent to the EU's institutional framework, and there is anecdotal evidence it is starting to change behaviour.

Proposed policy

There is strong evidence that pairing a high likelihood of return with

access to legal pathways can significantly reduce irregular border arrivals – but only if delivered at scale.¹⁴ It is also a fundamentally progressive approach, providing a mechanism for Britain to safely share rather than shift its responsibility for refugees. The UK should seek to expand the UK-France pilot to other countries in Europe in a phased approach.

Phase 1: A six-month circuit-breaker that sees key Member States accept the return of at least 80% of people arriving in the UK by small boat and lorry, made possible by the UK offering to accept a significant proportion of asylum seekers via safe admission routes from the EU's Solidarity Pool.

Phase 2: If the circuit-breaker works, it should be followed by a permanent UK-European migration cooperation framework where the UK provides safe and legal pathways for asylum at scale in exchange for a 'returns backstop' from Europe, that would see participating countries accept the return of anyone who crosses by boat or lorry.

While, in phase 1, Europe may take back more asylum seekers than the UK admits, after 6 months the aim would be for irregular crossings to fall to the hundreds per year, with the threat of return (demonstrated by the circuit-breaker) and opportunity of a safe route being sufficient to dissuade asylum seekers from making the crossing with a smuggler. In the medium term, therefore, the UK would take its 'fair share' of asylum seekers arriving in Europe via safe admissions relocations direct from the Med 5 and France, with Europe 'taking back' comparatively fewer asylum seekers from the UK.

Economic and social benefits and costs

Shifting the majority of asylum arrivals into managed arrival routes would reduce pressure on local authorities.

Fiscal cost

Neutral/net positive if it leads to a significant long-term reduction in unplanned arrivals.

Political advantages and risks

The visibility of small boats and the repeated failure of politicians who promise big and fail to deliver are exacerbating public concern over migration. The 'routes for returns' approach creates a clear dividing-line with Reform UK, which wishes to rip up Britain's commitments to refugees and pull the UK out of international rules (which incidentally is the basis on which we can return people to Europe and third countries). It would deliver a more competent, safe and orderly system.

Implementation and timetable

The UK-France pilot is due to expire on 1 October 2026. Negotiations could be incorporated into the EU 'Reset' agenda.

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4. Reform the Refugee Convention framework to deliver safe and orderly asylum

Context and current policy

The Refugee Convention and its 1967 Protocol developed the notion of the right to seek asylum from persecution. It has provided the rules on which Europe and large parts of the world's asylum systems have operated, not without flaws, for the last 75 years, protecting millions. And yet publics today see a system of inconsistencies; they hear their political leaders speak with forked tongues as they tell them they are doing everything possible to stop asylum seekers from arriving, but remain committed to the Refugee Convention which permits unauthorised entry.

Proposed policy

Rather than accepting the arguments of those who want to pull the UK out of international refugee protection frameworks – whether overtly or implicitly – progressive governments need to offer a better vision to the public. This vision should argue unequivocally for the fundamental principles these frameworks protect, but harness the tools of the 21st century to deliver greater control to both communities and refugees by addressing the gaps in their architecture that have been exposed by globalisation. The government should seek to build a coalition of willing countries around a new vision that would:

- Provide capped asylum processing, before arrival, along migration routes, to divert irregular, dangerous journeys, through a combination of online application and safe mobility offices.
- Limit eligibility for in-country asylum to only those who have a 'good cause' for bypassing earlier upstream opportunities to apply, in order to deter illegal entry when not needed.
- Implement these changes multilaterally with a new 'Implementation Protocol' to the Refugee Convention, codifying a new system of safe and orderly access to asylum.

‘Named’ community sponsorship, pioneered by Canada and trialled in the UK through the Homes for Ukraine scheme, could comprise a significant proportion of safe pathways offered, putting control back in the hands of communities. This new paradigm would build on policies emerging in Latin America, and the late stages of the Biden administration.

Fiscal cost

Uncosted.

Political advantages and risks

Arguing for major reform of the international system may appear a distraction to domestic issues, but without a clear vision – however long-term – to address the failings in the global system, the government has struggled to convince both left and right that it has the solutions to an issue of significant public concern. This approach is authentic - defending progressive values – but addresses the need for greater control, safety and order in the system.

Implementation and timetable

An Act of Parliament would be required to establish the right to apply for asylum from outside the UK. Article 45 of the Refugee Convention allows for any signatory to request revision of the Convention. The ambition could be set out pre-election, with implementation in the next Parliament.

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13. Water

Lena Swedlow, Compass

Introduction and rationale

The English and Welsh water sectors need to be managed, owned and governed differently. But how this should be done - the means of transferring ownership, the form and governance of the new companies, their relationship with local and national government (and the public), and the economic and legal levers - is poorly understood and highly contested. There is no consensus, whether among the trade unions representing the industry's workforce and regulators, academics, or the environmental NGOs and grassroots groups that have brought this to public consciousness.

Here we propose a sequenced transition in England and Wales to a publicly owned, regionally structured water system, guided by a National Water Strategy and implemented through Special Administration and legislative reform. The goal is not simply public ownership, but a new settlement: water as a universal public good, managed for environmental sustainability, democratic accountability, and long-term resilience.

Beyond the well-known problems of sewage pollution and unstable finances, there are three core problems to address. The first is information asymmetry - the public and the government lack reliable data on the condition of infrastructure and the finances of the water companies. Their owners have obvious incentives to hide their true state.

The second is strategic vacuum - there is no unified national framework or body responsible for a strategy for water that covers all of the major responsibilities of the water sector: drinking water supply and sewerage services; environmental protection, including chemical pollution; land use and agriculture; and climate adaptation and resilience.

The third is regional needs - while the water industry should have shared foundations and national coherence to allow for effective regulation, there are different needs across England and Wales due to different agricultural practices and environmental conditions, and differences in existing governance structures. For this reason, we do not recommend implementing exactly the same structure everywhere.

1. Public ownership

Proposed policy

Successive UK governments have regulated privatised water companies through Ofwat and the Environment Agency, while intervening selectively where markets have failed (e.g. the 1999 ban on water disconnections, price interventions in 2002, and attempts at banning bonuses for executives of failing companies in 2024). However, there

has been no comprehensive restructuring of water ownership since privatisation in 1989.

The 2025 Independent Review of the Water Industry chaired by Sir Jon Cunliffe was a wasted opportunity. The 88 recommendations included replacing Ofwat with a single 'super-regulator', creating a statutory Water Ombudsman, and putting an end to the disastrous Operator Self-Monitoring. The government responded in its January 2026 white paper, A new vision for water, confirming that Ofwat would be abolished and its functions combined with the Drinking Water Inspectorate and relevant functions from the Environment Agency and Natural England in a new integrated regulator for England. It also committed to publishing a Transition Plan in 2026.¹

The recommendations of the Review have been roundly rejected by campaign groups, the trade unions representing the industry, and leading experts² as insufficient to meet the challenges of an industry creaking under the weight of £80bn of debt,³ and to deliver the systemic change needed to fix a broken system.

A key problem with the recommendations of the Cunliffe Review was that the Review ignored well-documented issues of private companies overinflating the cost of building infrastructure to justify higher debt levels. Investigators found a £435m estimated cost for Oxford's sewage upgrade, over 10 times the original £40m estimate. A comparable new sewage plant in Denmark cost £29 million.⁴ There is also nothing in the recommendations to make polluters - whether pharmaceutical companies, building developers, agricultural firms or water companies filling rivers with sewage - pay for the damage they are directly responsible for. This leaves the taxpayer to foot the bill for corporate failure. Further, the Review recommends that regulators should waive fines for water companies if they claim paying them would hinder investment. This significantly weakens enforcement, undermines public accountability and enables repeat polluters to avoid consequences.

Beyond critiques of specific recommendations, Cunliffe's vision for a 'low-risk, low-return' sector for investors and a new 'super-regulator' does not grapple with the fact that existing regulators already have powers to fine, prosecute, and revoke licences.⁵ They have failed to use those powers effectively and have overseen the illegal behaviour of the current owners. The Review offers no credible plan for how any new regulation would deliver different outcomes. We do not need tougher regulation; we need an industry without the motive to cheat, lie, and break the law to extract as much profit as it can.

The proposed policy would have the following elements:

- Maintenance of clear communications to align public, workforce, and investor expectations

- A feasibility study into the possible public ownership models to examine the range of ownership models from public control to public ownership. This should take no more than 6 months as the evidence is already available, provide robust evidence on available options and create the basis for the design of a bespoke approach in England and Wales
- In the longer term, establish a Strategic Advisory Group of Experts (SAGE) to design a new National Water Strategy, with the legal power to conduct comprehensive audits of water company finances, infrastructure, and assets more widely across UK industry and infrastructure
- Legislation to make the National Water Strategy statutory, to reduce the notice period for the termination of water companies' licences to 2-5 years, and for the cost of underinvestment, the damage of illegal pollution, or other illegal activity that taxpayers and/or billpayers pay for to be accounted for in the appropriate and reasonable 'value' of a water company
- Appointment of non-commercial administrators who guarantee pay, terms and conditions (including pensions) for workers, cooperate with government audits, and do not extract money
- Use of Special Administration Regimes to take Thames Water and any other companies that are insolvent or breaching their licence conditions into Special Administration, writing off shares, and where appropriate compensating creditors at the legally required reasonable value informed by audits
- Implementation of a phased transition to full public ownership across all current companies in England and Wales, with strong accountability mechanisms for the transition and the new system (including parliamentary oversight, public reporting, citizen panels)
- Creation of Regional Water Authorities (RWAs) based on the river regions. These will be publicly owned and democratically governed Companies Limited by Guarantee where the state is the primary owner of assets and the governance structures include: local elected officials; worker and trade union representatives; environmental stakeholders; elected members of the public. These do not have to be uniform nationally. Regionally different governance arrangements allow for urban vs rural needs, agricultural vs industrial regions, climate risk profiles, and differences in government structures (the Senedd, GLA, GMCA etc.)
- Creation of Shadow RWAs in the years leading up to full transfer of ownership from the existing companies, to build public sector capacity

Economic and social benefits and costs

The economic and social benefits of public ownership include long-term infrastructure investment aligned with public need and lower water bills. They include assurance that all money collected from the public through bills is being used for water services, rather than the 30%+ currently leaving company balance sheets as returns to shareholders.⁶ They include improved environmental outcomes over the long term (reduced pollution and greater climate resilience) as well as access to accurate data, leading to greater transparency and accountability in service provision.

Further benefits include stabilisation of a financially distressed sector and the protection and potential expansion of a workforce of around 50,000. They also include reinforcement of water as a universal public good, improved public trust in public institutions, and better integration of water policy with agriculture, planning, and environmental strategy.

Political advantages and risks

The principal political advantage of public ownership is that it aligns with public concern over sewage, pollution, and corporate performance. It demonstrates decisive action on a high-salience issue and the Labour government's willingness to take on big corporations in the interest of the public.

It also builds on a broader narrative of restoring public control over natural monopolies to ease the cost of living crisis, and has potential to unify multiple stakeholders (consumer groups, environmental organisations and campaigns, trade unions and local government).

The political risks are opposition from investors and parts of the financial sector, legal challenges over compensation and licence revocation, the risk that the policy is being framed as fiscally risky or ideologically driven, and the need to have sustained political commitment over multiple years.

Fiscal cost

The cost of public ownership has two parts: compensation to those with a stake in the current ownership; and investment in building the public sector capacity to take on the management of sewerage and drinking water services.

Compensation

The compensation to be paid to current owners and transfer of debt to new companies will be highly variable depending on the financial

situation of the company but is dictated by political choices about public interest and appropriate value.

The relevant legislation is *Lithgow v UK* 1986, SAR and Article 1 of Protocol 1 to the European Court of Human Rights which guarantees the right to the peaceful enjoyment of property 'except in the public interest and subject to the conditions provided for by law and by the general principles of international law'. States may - and do - interfere with the right to peaceful enjoyment of property, provided it is 'in the public interest' to do so, and states have a wide margin to determine what constitutes the 'public interest'. Article 1, Protocol 1 requires a fair balance to be struck between the person's right to peaceful enjoyment and a state's ability to act in the public interest. In response to various legal challenges concerning nationalisations, the ECHR has set out two basic rules which governments must follow: there must be reasonable compensation for the interference with property, and a reasonable valuation method must be used to calculate such compensation.

Reasonable, appropriate, and public interest are the terms we have to focus on defining. Determining reasonable and appropriate compensation, and defining what is in the public interest, require calculation and negotiation. It is up to government, within the parameters of international law, to outline. But it is important to recognise that taking the industry into public ownership would not cost the £100bn claimed by DEFRA. This figure is based on methodology devised by the Social Market Foundation in a report paid for by Anglian Water, Severn Trent, South West Water and United Utilities.⁷ Under this assessment, compensation is based on asset values in 1989, multiplying by RPI, adding investment, and subtracting depreciation to arrive at the 'Regulatory Capital Value' (RCV). But RCV has no relevance to the law on compensation, contrary to DEFRA's incorrect claim that it 'is the closest proxy for the total value of the sector's debt and equity'.⁸ DEFRA did not give legal reasoning for using it. For instance, Thames Water's RCV is around £20bn, yet KKR in 2025 bid just £4bn to buy a majority stake before pulling out. Severn Trent's RCV is £13.7bn, yet its market cap is £9.5bn. Other transfers of ownership (e.g. Bulb, Network Rail, Northern Rock, and the recent purchase of the National Grid) have made no reference to RCV.

It is also worth noting that a water company's assets cannot be sold without Ofwat approval. They otherwise have zero sale value. A water company's net present value depends on its expected future returns, i.e. money from bills minus capital repair/upgrade costs.

Shareholders. For Thames Water and other companies that are insolvent (where liabilities exceed net present value), shareholders should not be compensated. This is what happened to Northern Rock shareholders under the Banking (Special Provisions) Act 2008. This intervention was justified by the Labour government of the time on

grounds of the public interest. Given the critical public importance of these companies in drinking water provision and sewerage services, this should be no different.

If a water company is solvent, shareholders get fair value compensation. This must be 'reasonably related' to market value. But the leading court judgement on this question is clear that this 'does not, however, guarantee a right to full compensation in all circumstances, since legitimate objectives of "public interest", such as pursued in measures of economic reform or measures designed to achieve greater social justice, may call for less than reimbursement of the full market value'.⁹ 'Less than the full market value' could be a flat percentage rate of that value, or a more specific figure.

Our recommendation is to pass legislation to enable the negotiations for the appropriate value of water companies to factor in the estimated cost to new (public) owners of carrying out repairs to water infrastructure needed to fully comply with legal duties in the name of the public interest, for example the secondary treatment of all sewage before release under Urban Waste Water Regulations 1994 reg 4. The full repair costs are not known, because the companies do not report the necessary data to calculate this (for obvious reasons of self-interest). But for demonstrative purposes, we do have a market value of Severn Trent and the cost of recent investment needed to meet its legal duties: Ofwat mandated that it spend £12.9bn by 2030 to repair storm overflows (an investment level only predicted to lead to a 26-30% reduction in sewage spills). Taking Severn Trent as an example to calculate a reasonable estimate of compensation, we can start with its market cap in 2026 (£9.5bn) x % of market value deemed fair (a legal and political decision) minus the value of repair costs (which we can reasonably expect to be billions of pounds, but different across the companies).

More creative proposals could also lessen the one-time cost of the transfer. One idea might be that instead of Ofwat (or its replacement) issuing yet more fines that only end up costing the billpayer more, once the shadow RWAs are established, the punishment for illegal behaviour could involve purchasing shares and giving them to the new public bodies.

Creditors. At 31 March 2025, regulated water companies had £76.3bn of net debt, excluding Tideway. Thames Water reported net debt of £18.5bn at 31 March 2026.¹⁰ The decision as to whether or not water companies' debt ends up on the government balance sheet lies with the Office for National Statistics. It is not a given. It is not an immediate transfer. That is dictated by fiscal rules, which we will not explore further here. This mountain of debt means some of the current owners will not invest in fixing infrastructure. They will continue to service debt to attempt to achieve (relative) financial stability. They will only invest

in infrastructure when mandated by the regulator. That is the situation we are in now.

Special Administration exists to give the government and/or the regulator the power to transfer failing water companies to someone else (or to ask the court to appoint special administrators). 'Failing' is defined as either when the company breaches licence conditions or is insolvent. In the instance of insolvency the creditors, who own the business when it is insolvent, take a 'haircut'. Their debts are cut and will never be repaid. This legislation exists for water companies to ensure that this crucial service continues, to ensure that in the long term money is used to invest in infrastructure rather than just service debt. Essentially, when they have too much debt to function, an administrator that does not have to pay back all the loans takes over. Thames Water is in exactly the situation this legislation is for. The reluctance to move Thames Water into SAR because of the implications for government debt and spending is short-sighted and dangerous.

In law, creditors have to be paid 'appropriate value', not the full value of their outstanding loans and bondholdings. This is a distinction between a calculated, context-dependent amount deemed appropriate in law, and the theoretical total or full market price. This means any SAR or transfer of ownership could involve significant debt haircuts.

Calculations of haircuts for water companies' debt have already been sought. Under the Sunak Conservative government, Thames Water's net debt was £15.6bn. At the time, the Treasury commissioned contingency plans for the possibility of the company's failure - 'Project Timber'. Project Timber calculated a 35-40% haircut for the creditors holding Class B debt, who at the time held £1.6bn of the Thames Water operating company's borrowings, and a 5-10% haircut for the majority of bondholders, owed about £13bn. An analyst at JP Morgan calculated haircuts of 3-5x higher for the latter group at 15-25%.¹¹ This was before Thames Water went bankrupt and took on another £5bn of debt to stay afloat.

There are a few ways to deal with this now. The first step in any case should be a research exercise or internal government or regulator audit to ascertain for each company how much debt they have; how the debt is classed/secured; which of the associated shell companies the debt is held by (and the implications for what debt is secured); how much the interest rates and other associated fees would change if they were held by a public body (transferring private debt to government bonds would reduce this considerably), and a clear understanding of the methodology the Treasury does and could accept to calculate haircuts. From there, there are several options to lessen the debt burden that is transferred to new public companies:

- Legislation to prevent debt, or at least some debt, being transferred in Special Administration for insolvent companies: such as in the new Clause 8 proposed for the Water Special Measures Bill.¹²
- Bail-in condition to meet legal obligations for the public interest. Similarly to above, the estimated cost to new owners of carrying out repairs to water infrastructure needed to fully comply with legal duties in the name of the public interest could be deducted or factored in - Thames Water reportedly requires £23bn in repairs and holds £20bn in debt.¹³
- in the name of the public interest, matching compensation to the real amount creditors contributed to the company or paid for their claim. Using the argument that creditors turning a profit on the financial distress of the companies in charge of an essential resource is harmful to the public interest, the real amount creditors contributed to the company or paid for their claim could be used. A matched contribution would mean there is no real-terms loss. For example, if Elliott Management (a Wall St fund currently holding Thames debt) paid £1bn for £4bn in bonds, £1bn would be the relevant compensation figure. Using the same argument, that profiting from the active degradation of a public interest asset is unreasonable, the government could explore deducting the sums already received in profits, interest or other returns on capital. In the example of Elliott Management (a Thames Water shareholder), for example: if the compensation happened in 2028 and Elliott Management gets 9.75% p.a. interest on a £3bn loan 2025-28, then £877.5m could be deducted from £1bn.

In March 2026, Thames Water creditors offered a deal of a 30% haircut on Class A debt and a write-off in full of the Class B debt and any subordinated debt or equity held by existing shareholders.¹⁴ That is the deal on the table without the government even asking for appropriate value, or thinking about new legislation, bail-in conditions, or matching. It should seek a deal better than this based on appropriate value.

Investment

In 2018, research by the University of Greenwich's Public Services Research Unit showed that across the ten water and sewage companies in England, in all but two years since privatisation, investment and maintenance costs had been entirely financed through the income from customers, usually with sufficient cash remaining to cover interest payments.¹⁵ Their evidence suggests that the explosion of debt was driven by overly high dividends, which exceeded their cash balances in all but one year since privatisation. In short, in the long term, the money that could run these companies is already being paid to them through consumer bills. Even large, expensive investment projects like

the Tideway Tunnel have, in the end, been paid for entirely through bills rather than as returns on risk by investors.¹⁶

Moreover, from international evidence,¹⁷ there is good reason to believe that publicly owned water would be cheaper than the current model by reducing the cost of debt and removing the extraction of dividends.

A key element of the audits of the water companies we propose would be an evaluation of the current and predicted income through bills across England and Wales, and whether that will (as expected) cover the cost of running the water companies. Getting accurate information about the state of infrastructure and investment needed will allow the government to plan a funding model for any additional investment needed.

Without the accurate information on the infrastructure and the results of the feasibility study into ownership models, it is impossible to gauge exactly the ongoing costs and needs for additional investment.

The current private ownership model increases the cost of running the industry by £22bn between 2025 and 2029 according to Ofwat PR2024.¹⁸ Anything less than £22bn as the cost of privatisation should be seen as a reduction in cost to the British public.

Implementation and timetable

Implementation would require convening, direction, and communication from the government. It would require primary legislation to establish the National Water Strategy as legally binding, reduce the notice period for the termination of water companies' licences to 2-5 years (in 2002 it was extended from 10 to 25 years), and reform the rules to define the concepts of 'reasonable', 'appropriate', and 'public interest' as above. Legislation and departmental policy would be required for appointing administrators, conducting audits, establishing SAGE and shadow authorities, and issuing notice and recommendation for SAR for insolvent and failing companies. Implementation would also require coordination with devolved governments where applicable (particularly the Senedd). An indicative timetable would be as follows:

- Year 1: appoint administrators, apply to court to put Thames Water into SAR, run a feasibility study into ownership models, begin audits, establish SAGE, pass relevant legislation, and create shadow RWAs.
- Years 2 - 3 (pre-2029): initiate SAR for any other failing firms and expand public operational capacity - through shadow RWAs, there may be a mix of public and private contracts (e.g. customer service call centres) during this expansion.

- Years 3 - 5: revoke remaining licences and complete transition to public ownership.
- Post-Year 5: fully operational regional public system with ongoing refinement.

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14. Energy

Chris Hayes, Common Wealth

Introduction and rationale

The UK's energy system sits at an uncomfortable intersection between a cost of living crisis and a historic technological transition. The UK is an outlier among European countries in terms of both its acute vulnerability to energy price shocks, such as 2022 and 2026, and chronically high prices during 'normal' times. The complementarity between the goals of decarbonisation and reducing the cost of living is not automatic, but rather must be carefully managed. An uncoordinated approach to a transformation of such scale and scope could give rise to problems that would jeopardise decarbonisation's popular legitimacy and leave it open to attack by the populist right.

A non-exhaustive list of objectives for the clean energy transition includes: massive development of utility-scale clean buildout; accompanying expansion of national and local grids; phasing out fossil fuels; safeguarding grid resilience via spare capacity and balancing mechanisms; electrifying private and public transport; heat electrification; demand-side flexibility (i.e. shifting consumption to match the hourly profile of renewable generation); rooftop solar and battery rollout; mass housing retrofit; and the associated evolution of distribution network operators (DNOs) into system operators (DSOs). The number of moving parts is dizzying.

Privatisation — and accompanying processes of unbundling and liberalisation — was designed to solve a radically different set of problems from those that confront us now. As new problems have emerged, policymakers have responded with patch fixes, but over time these have accumulated into an unwieldy and incoherent mess. Today's system is a far cry from what the architects of privatisation envisaged. Government interference — through departments, regulators and quangos — is further-reaching than ever but remains arms-length, with the result that its control over assets and investment remains extremely weak. Our mutating state-market hybrid is arguably the worst of both worlds rather than the best: price distortions, excess profits and rent-seeking, regressive distributional impacts, weak investment. We are simultaneously desperate to deliver certainty to investors on the one hand, and, on the other, transformative change to society.

The following set of policies aims to take back control of key leverage points within the system, in order to reduce bills and costs, accelerate home-, area- and national-level investments, and simplify the regulatory landscape. Each could be enacted on its own. In combination, they would enable crucial coordination between energy customers and local and national grids. Private developers could still build generation and storage assets to sell electricity into local grids, to corporate partners or to the National Energy System Operator (NESO). Likewise

public entities would still purchase business to business solutions from innovative software providers or local energy aggregators.

Some but not all of these interventions — a single buyer in wholesale electricity markets, public ownership of networks — are effectively forms of renationalisation, partly aimed at reducing excess profits. As such they would be politically contentious and fiscally expensive. Core to all of them, however, is the need for robust and rationalised public institutional vehicles capable of delivering ambitious targets for clean energy and lower bills. These measures can help begin to rebuild both state capacity and public trust in institutions. They can also provide stepping stones to more radical transformation of the sector, of the kind previously seen in the 1920s (the creation of the Central Electricity Board), 1940s (the Central Electricity Generating Board) and 1980/90s (privatisation).

1. Regional Energy Boards

Context and current policy

The liberalised energy retail market, in which consumers shop around for the best tariff from a set of capital-light trading companies, is currently creating more problems than it solves. Levels of consumer switching are simultaneously too low (half of customers are still on default tariffs requiring price cap protection) and too high (suppliers are discouraged from providing financing for e.g. rooftop solar investments if the costs can't reliably be recovered through the bills). Smart Local Energy System trials are beset by transaction costs.¹

Proposed policy

The energy retail market would be replaced with permanent, publicly owned Regional Energy Boards (REBs). All households within the coverage area of a given distribution network would buy energy from the same Board. Boards would coordinate with corresponding DNOs/DSOs to enable Smart Local Energy Systems (SLES); and with Housing Improvement Corporations (see below) to deliver home-level energy improvements, providing customers with financing for household clean energy assets. REBs would automatically place customers on the best tariffs (obviating the price cap).

Economic and social benefits and costs

Immediate benefits of this proposal would include the protection of unengaged (generally poorer) consumers from price-gouging, and from effectively cross-subsidising other consumers exploiting time of use charging. A greater range of fuel poverty policies could be administered more simply (including rising block and time of use tariffs). In the medium term, REBs would be able to accelerate and

coordinate investments jointly in home retrofit and smart, clean energy (solar, batteries, smart chargers/heat pumps). This will enable whole-home solutions where currently responsibility is split between local government (for the former) and energy suppliers (for the latter). Financing could be provided and costs then recovered through the bill, which supplier-switching currently jeopardises. Automatic tariff selection would let customers immediately enjoy the benefits of those investments rather than leave it to their individual initiative to find a suitable tariff. REBs would better enable SLEs, necessary to optimise complex decentralised networks and relieve growing local grid constraints.

Fiscal cost

Private acquisitions since 2020 (of SEE and Ovo) have been priced at £138–150 per domestic customer, suggesting the retail companies for all 28m households could be bought out for £3.8–4.2bn. The six largest suppliers had a combined equity book value of £2.9bn as of 2023–24.²

Political advantages and risks

Rightly or wrongly, many people dislike their supplier and see them as predatory.³ A permanent supplier relationship would provide a rare constant interface in a larger system transformation with so many moving parts.⁴ REBs would be highly complementary to the other reforms proposed in this chapter. Thin margins mean public ownership of retail would encounter less entrenched opposition than in more lucrative sectors. Red tape can also almost certainly be cut.

Implementation and timetable

Primary legislation is needed to end consumers' right to choose suppliers (embodied in legislation since the Gas Act 1986). The Standard Licence Conditions and Balancing and Settlement Codes would need revising to be compatible with a single supplier model. This could be done within this Parliament, or in the next one. No major assets (fixed or intangible) are being acquired beyond customer relationships, allowing for relatively uncomplicated handover.

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2. Home Improvement Corporations

Context and current policy

Much of the UK housing stock is poor quality and energy-inefficient, especially in the private rental sector. The Warm Homes Plan has terminated the Energy Company Obligation and Great British Insulation Scheme policies, given mayors and combined authorities more scope to coordinate supply chains, and reaffirmed a commitment to an area-based approach. However, a more comprehensive and reliable strategy for retrofitting requires (a) expanding its scope beyond mere decarbonisation to address the structural repairs that many homes need before retrofit can even begin; (b) a stronger governance framework at the municipal scale, not restricted to places with devolution deals; (c) tenant protections; (d) active labour market policy; and (e) a community engagement strategy.

Proposed policy

The government would create Home Improvement Corporations (HICs) to deliver place-based, neighbourhood-level retrofit programmes led by local government across the 60% most deprived areas in the country. Around 30 HICs at the level of mayoral/combined authorities would balance economies of scale and workforce management capability with local knowledge and democratic legitimacy. Their coverage should be nationwide. HICs should have finance-raising and compulsory purchase powers, and should in-source employment, establishing a permanent, trained and unionised workforce of retrofit installers, coordinators, assessors and architects. Tenant protection and active community engagement and co-design should be embedded as core delivery principles.⁵

Economic and social benefits and costs

HICs would benefit both local labour markets and the delivery of the Warm Homes Plan (WHP) by replacing the opaque, unaccountable chains of private (sub)contractors with a trained, organised workforce — creating a pipeline of apprenticeships and on-the-job training to remedy huge labour shortages, while avoiding inflationary competition between councils for scarce labour within short deadlines.⁶ Delivery would enjoy economies of scale, learning from the Housing Action Areas of the 1970s/80s.⁷ Identifying areas through the Index of Multiple Deprivation (IMD) decile is a cheap, administratively simple way of targeting assistance. There is potential through a 10-year investment programme to reduce household bills by almost £3.5 billion annually for the bottom 60% of the population.⁸ This would greatly reduce fuel poverty and have huge public health benefits from ending cold, damp, mouldy homes (currently costing the NHS an estimated £1.4bn pa).

Fiscal cost

A nationwide retrofitting programme in England would cost around

£27bn in grant funding and around £14bn in loans issued to households.⁹ These would be capital expenditures, but netted off against PSNFL.

Political advantages and risks

Emphasis on community engagement and co-design will help recover trust in energy saving institutions (and municipal capacity), while safeguarding popular consent for climate policy by reaffirming that it can improve daily life. Carbon retrofit would be situated within a larger project of home upgrade and neighbourhood improvement. But it is expensive.

Implementation and timetable

New primary legislation modelled on the New Towns Act 1981 (and subsequent Development Corporation legislation) would be required, to give HICs a statutory basis and appropriate powers. Such legislation could be introduced in this Parliament if the funding were available, or in the next if not. A local pilot within this Parliament could provide a test of the concept.

Further information

- Pauker, M. and Brown, D. (2026), A plan for places: Transforming housing and lowering the cost of living through Home Improvement Corporations. Common Wealth. Available at: <https://www.common-wealth.org/publications/a-plan-for-places>

3. A single buyer of wholesale electricity

Context and current policy

Contracts for Difference (CfDs) — now extending into dispatchable sources like biomass — are making the Department for Energy Security and Net Zero (DESNZ) the de facto central purchaser of much of the new power generation, fixing the end price received by plants. HMT and DESNZ have announced that generators operating under the old Renewables Obligation will be incentivised to move to new, fixed price CfD contracts, in order to sever the link between gas and electricity prices and to reduce the windfall profits earned by older generation plants. In July 2025 the Government's Review of Electricity Market Arrangements rejected locational pricing in case price uncertainty deters private investment in renewables.¹⁰ Ageing gas plants still needed for backup are kept online via capacity market payments.

Proposed policy

The National Energy System Operator (NESO) would be instructed by the government to act as a single monopsony buyer of power

and of demand-side flexibility, like the Central Electricity Board of 1926–1947, or South Korea's KEPCO today, thereby replacing the wholesale market. Real-time dispatch would be controlled centrally by NESO rather than the current 'self-dispatch' fraught with misaligned incentives, weak information and inadequate access to flex resources.¹¹ Legacy Renewable Obligation (RO), nuclear and hydro assets would be moved onto power purchase agreements (PPAs) at fixed prices reflecting their original pre-2015 business case (with top-subsidies retained).

Economic and social benefits and costs

Having a single buyer of wholesale electricity would eliminate the windfall inframarginal rents that accrue to legacy assets whose historic business cases and final investment decisions were not premised upon extraordinary episodes. This would reduce consumer prices. Gas plants would no longer be able to price-gouge through the balancing mechanism, reconciling the continuing near-term dependence on gas with the need to eventually phase it out. Investments by retailers in demand-side flexibility (especially automated) solutions would be derisked, with NESO offering direct procurement assurances. This could be key to realising the government's highly ambitious flex targets for 2030. At the same time central dispatch could take better account of network constraints when organising the dispatch of generated and stored electricity. These combined efficiency improvements to day-to-day grid operation would cut system costs by reducing balancing costs, avoiding costly peak generation and optimising existing asset utilisation — ultimately postponing or reducing the amount of expensive grid expansion needed.

Fiscal cost

Almost zero, since NESO is already publicly owned.

Political advantages and risks

This reform would work within the parameters set by recent long-term policy decisions — the rejection of zonal pricing and doubling down on CfDs — rather than relitigating them. It could be a stepping stone towards greater public ownership of generation. Preserving the ROC top-up subsidy would reduce risk of legal challenge from legacy RO assets. There is obviously a high risk of confrontation with the generation sector, requiring greater courage with respect to future investment. It would be institutionally complex and politically sensitive.

Implementation and timetable

New legislation would be needed, revising the 1989 Electricity Act, industry codes and cross-border trade arrangements. There might be devolution implications for Scottish grids. This is likely to be for the

next Parliament. Power Purchase Agreements or CfD-like instruments for those RO assets that decline the government's ongoing voluntary CfD offer could be implemented via emergency legislation. Central dispatch and bulk flex purchase could potentially be implemented by the time of the next election if planning is begun promptly.

Further information

- Brown, D. (2026). Fixing the price: How a single buyer model could slash UK electricity prices and build consent for the clean power mission. Common Wealth. Available at: <https://www.common-wealth.org/publications/fixing-the-price>
- Brown, D. (2026). Crude awakening: Averting the unfolding energy crisis by decoupling the price of electricity from gas. Common Wealth. Available at: <https://www.common-wealth.org/publications/crude-awakening-averting-the-unfolding-energy-crisis>

4. Public ownership of distribution networks

Context and current policy

Successive price control frameworks have systematically allowed the electricity and gas networks to earn excess profits, and have incentivised under-investment.¹² Electrification and power decarbonisation require huge expansions in network capacity. This demands a pivot away from efficient asset-sweating — which privatisation prioritised — back to asset-building. For this it is essential to minimise the cost of capital, allow long investment time horizons, and maintain policy flexibility to adapt to changing circumstances.¹³

The scale and speed of network expansion currently needed have only ever been achieved in the UK — both in gas and electricity — under public ownership. At present, policy explicitly prioritises the minimisation of networks' cost of (private) capital through 'regulatory stability', effectively curtailing the space for alternative policy. At the same time regulation has become bloated, with Ofgem developing complex models and teams of engineers to scrutinise networks' spending plans. The informational asymmetry core to the model of privatisation makes it easy to thwart attempts to 'toughen up' regulation. Ultimately, regulators set prices to allow for an easily miscalibrated rate of return on a set of investment plans whose legitimacy they are structurally ill-equipped to appraise properly. In the instances in other countries where regulation has improved efficiency, (a) private ownership has not been necessary, and (b) improvements occurred only during periods of asset sweating, not building.¹⁴

Proposed policy

The proposal is to bring distribution networks under public ownership as public corporations, outside of the civil service pay structure.

Economic and social benefits and costs

Public ownership would reduce the cost of capital by up to two percentage points, each percentage point amounting to a 10–15% difference in overall network costs.¹⁵ These costs represent a quarter of a typical household energy bill. It would further reduce or eliminate the 8% of the Ofgem price cap attributable to network pretax profits (after interest) as of March 2025. The reform would reduce regulatory bloat, duplication and informational asymmetry. Domestic supply chains would benefit from a more robust order flow from an anchor client. It would better incentivise distribution system operators to prioritise procurement of flex solutions (which more efficiently utilise existing network capacity) over network reinforcements (growing the asset base on which they are permitted a regulatory return).

Fiscal cost

We estimate the fiscal costs as follows.

	Electricity Distribution¹⁶	Electricity Transmission¹⁷	ED+ET
Aggregate Regulated Asset Value (RAV)	~£43.9bn (1.4% of GDP)	~£33.3bn (1.1% of GDP)	~£77.2bn (2.5% of GDP)
Notional equity share of RAV (45% ET, 40% ED)	~£17.6bn (0.6% of GDP)	~£15bn (0.5% of GDP)	~£32.6bn (1.1% of GDP)

Engie recently bought UKPN at an equity value of 1.88 times book value, and an enterprise value of 1.5x RAV.¹⁸

Political advantages and risks

Renationalisation would bring the UK back into line with most developed economies, but would be expensive. The question of just compensation could be fraught – there is a risk of investor-state dispute settlement under Articles 10 or 13 of the Energy Charter Treaty if compensation is deemed inadequate.

Implementation and timetable

The reform would need a new Act of Parliament, with amendments to the Electricity Act 1989, Energy Act 2004 and Energy Act 2013. It would probably take 5–8 years in total, from pre-legislative preparation to operational transfer.

Further information

- Baines, J. and Hager, S. (2022). Profiting amid the energy crisis: The distribution networks at the heart of the UK's gas and electricity system. Common Wealth. Available at: <https://www.common-wealth.org/publications/profitting-amid-the-crisis>

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15. Transport

Holly Brazier Tope

Introduction and rationale

A sustainable transport system – integrated with spatial planning, and based on public transport, active travel and zero emission vehicles – is critical to delivering wider policy goals around ‘good growth’. It can reduce regional productivity gaps, improve access to education and employment, reduce social exclusion and improve public health. Transport is also the UK’s largest source of greenhouse gas emissions, making the rapid transition to a cleaner, lower-carbon transport system an urgent priority.

Around 70% of trips are under five miles, so most travel is local. National policy should therefore prioritise relatively small-scale capital and revenue investment to improve the quality, extent, accessibility, affordability and reliability of integrated local and regional transport networks and systems, including local buses and mass transit networks. This should sit at the heart of an urgent programme to reduce transport emissions, while ensuring the climate resilience of existing infrastructure and investing in the capacity and reliability of the national rail network.

Electrification of vehicles will be critical to reducing transport emissions, but it will not be sufficient on its own. The Climate Change Committee has concluded that changes in how people travel will also be needed: in particular, reducing car mileage and shifting journeys towards public transport, walking and cycling. Green Alliance’s analysis similarly shows that the UK cannot meet its transport emissions targets through the transition to electric vehicles alone, and that policies to reduce car mileage and increase the use of public transport and active travel will be needed. Reducing car use also brings wider benefits, including improved air quality, less congestion and healthier, safer and more connected communities.

The objective should therefore be a transport system in which electric vehicles are integrated with thriving public transport and other sustainable modes, rather than simply replacing every petrol and diesel vehicle with an electric equivalent. Better integration of public transport, active travel, shared journeys and car clubs can reduce congestion and emissions while improving accessibility and giving people more affordable alternatives to private car use.

Transport planning and delivery must be better integrated with other policy and delivery areas, including housing development and health, as set out in the *Better Connected* Integrated National Transport Strategy. Better planning can make walking, cycling and public transport easier choices for people to make, while reducing the need to travel and supporting more sustainable patterns of development. This approach is dependent on the wider machinery of government changes proposed elsewhere in this report, particularly devolution, and requires

long-term investment to restore and maintain delivery capacity and capability at sub-national level.

The national policies for England set out below provide an opportunity to fix the national ‘pothole crisis’, improve everyday journeys, address regional inequalities and support lower-income families, while accelerating the shift towards a cleaner, healthier and more reliable transport system.

1. A national pothole plan

Context and current policy

The increasing numbers of potholes and the inability of local authorities to repair them are among the issues most raised by voters on the doorstep. For many they symbolise the failures of the state and the decline in the quality of life. The backlog of pothole repairs in England and Wales is now estimated as £18.6bn.²

The prevalence of potholes has been exacerbated by the growth in use of SUVs in towns and cities. SUVs made up more than half of the 2m new cars sold in the UK last year, and a smaller but growing proportion of the 7m second-hand cars sold.³ SUVs often pay similar or lower tax than smaller cars despite having greater environmental, safety and infrastructure impacts. While the government has begun aligning taxes more closely with emissions, this approach misses wider externalities such as vehicle weight, road damage and safety risks. HGV taxation is already based on weight.

Proposed policy

The policy would be two-fold:

- A national pothole programme in England, implemented by local authorities but funded by central government.
- A weight-based levy on cars, targeted at the largest and heaviest vehicles.

National pothole programme. The government would set a target date (perhaps 2029 or 2030) for 90% of all roads currently identified as needing repair by local authorities to be repaired. Road maintenance counts as capital expenditure, so councils can borrow to fund it over 15 years and from central government’s point of view it can be funded by an annual capital allocation. If the £18.6bn figure is correct (and it is likely to be an over-estimate, as local authorities are developing and trialling new and cheaper techniques), this would be an annual cost of around £1.2bn for 15 years. With interest payments added, the cost is likely to be around £1.5bn pa. Local authorities would be allocated

this money on condition that it were used rapidly for this purpose. The programme would be funded through a large vehicle levy.

Large vehicle levy. Vehicle Excise Duty is a simple tax which is already varied according to emissions. The proposal is to apply an additional flat rate charge, say £10 per kilogram, to vehicles above a threshold of 1,600 kg, ensuring that typical family cars are unaffected. To maintain fairness, battery electric vehicles would receive an additional weight allowance (e.g. 400 kg) to account for the additional battery weight. The levy would be based on official vehicle weight data already recorded at registration, making it simple to administer with minimal additional bureaucracy. The policy is designed to influence purchasing decisions by encouraging consumers to choose appropriately sized vehicles, rather than unnecessarily large models, while ensuring those who opt for heavier vehicles contribute proportionately to their impacts. For at least fifteen years the government would commit to earmarking this to a pothole fund distributed to local authorities. A large vehicle levy set at £10 per kg would generate up to an estimated £1.7 billion annually.⁴

Economic and social benefits and costs

It is estimated that potholes cause over £14bn worth of damage to the economy in England every year.⁵ Repairing them would lead to significant productivity gains in key sectors. It would also deliver wider social benefits. Heavier vehicles are associated with increased road danger, with higher front profiles significantly raising risks to pedestrians and cyclists.⁶ Environmentally, discouraging oversized vehicles would reduce emissions and resource use. By shifting consumer behaviour, the policy supports decarbonisation while improving urban car parking space. Rural households, including farmers, who need heavier four-wheel vehicles, would be adversely affected unless a special exemption could be devised.

Fiscal cost

The tax would raise up to £1.7bn pa, which under this policy would all be redistributed to local authorities for ring-fenced pothole repair. Administrative costs would be minimal as it uses existing registration data and tax collection systems.

Political advantages and risks

Before the local elections in 2026, YouGov asked people to name the three most important local issues in their area. Roads, including potholes and parking, came top (37%), above the cost of living (35%) and health issues (29%).⁷ This was true of all party voters except those of Reform (who put immigration top, and roads next). Instituting a national pothole repair programme would be one of the most popular things the government could do. The levy to fund it offers a clear fairness narrative: those who impose the greater costs on society should pay

for the damage they cause. It avoids penalising typical households by targeting only the largest vehicles, while aligning with public concerns about potholes, congestion, safety and environmental impact. The policy is likely to face resistance from SUV owners, but these are almost all in higher-income households, along with some others in rural areas. It is likely to be framed by the media as a ‘family car tax’, but the majority of the public are likely to support it.

Implementation and timetable

Implementation would require primary legislation to amend vehicle taxation frameworks, introducing a weight-based element to VED. The system would rely on existing vehicle weight data, avoiding new testing requirements. This could be done in the next budget, with funding to start as soon as possible after that. A number of local authorities would leap at the possibility of being first movers. It might be possible to train a new workforce in road repair from among young people currently not in education, employment or training and asylum seekers enabled to work under the proposals in the Immigration chapter of this report.

Further information

- Transport & Environment UK (2025). The large vehicle levy. Available at: https://uploads.transportenvironment.org/production/files/TE-UK_-Large-Vehicle-Levy_Briefing.pdf

2. A national mode shift target

Context and current policy

Scotland, Wales, London and Manchester all have ‘mode shift’ targets; that is, long-term commitments to enabling people to change their travel choices, in particular by increasing the proportion of trips made by public transport, walking and cycling. These have been regarded as critical ‘north stars’ for policy, investment and operational decisions. Labour committed to setting mode shift targets in opposition.⁸

Proposed policy

The government should publish a national target for increasing the share of travel made by public transport, walking and cycling in England by 2040. This then needs to be cascaded down to the local transport authority level in the form of central government-backed and evidence-based local targets, for inclusion in local transport plans and outcomes frameworks.

The DfT decided not to include this in the *Better Connected* integrated national transport strategy for England published in April 2026.⁹ But

setting a national mode shift target would be entirely aligned with the approach taken in *Better Connected*. This approach has indeed been taken in the DfT's third Cycling and Walking Investment Strategy (CWIS3), published in June 2026.¹⁰ CWIS3 sets a national target for 55% of short trips in towns and cities to be walked, wheeled or cycled by 2035 (the current baseline is around 48%), alongside a target for 60% of children aged 5–16 to travel actively to school by the same year.

Economic and social benefits and costs

There are substantial social and economic benefits associated with enabling more people to travel more often by sustainable forms of transport. Transport for the North found that 11.2 million people in England now face a high risk of transport-related social exclusion, up 14% since 2019.¹¹ National Travel Survey data shows that 44% of households in the lowest income quintile have no access to a car at all, making them dependent on public transport and active travel networks.¹² And the Social Market Foundation finds that transport costs alone keep five million people below the poverty line.¹³ Public Health England attributes up to 36,000 early deaths in the UK each year to air pollution, much of it linked to road transport.¹⁴

Fiscal cost

The publication of a national mode share target would not have any direct costs on its own account. But it would help orient national policy and investment towards supporting travel by sustainable modes of transport and provide a strategic framework for devolved decision-making

Political advantages and risks

Geoff Mulgan argues elsewhere in this report that strategy teams at the heart of government need to

'shape clear and comprehensive strategic frameworks that describe what government is trying to achieve, wherever possible with explicit goals and milestones, providing a shape for performance management, budget allocation and accountability to the public. Without a clear strategic framework governments risk being driven solely by events'.

A national mode shift target would provide the foundation for just such a strategic framework. This has both a policy advantage and a political one, in that a national mode shift target would give real clarity about the government's overall policy intent for transport. There is a political risk that such a target would be seen as a 'nanny state' or 'anti-motorist' intervention and it might not be supported by local mayors and councils. But the wider social, economic and environmental benefits of enabling more trips to be made by sustainable modes would be very

attractive if appropriately communicated, and of course significant numbers of journeys would still be made by car.

Implementation and timetable

The DfT has already published *Better Connected*, to which a mode shift target could be linked. It would need to work with the Climate Change Committee, local transport authorities and the wider sector to analyse what an ambitious but realistic national target might be, and to consult on it. This would then need to cascade down to the local level through the next iteration of local transport plans and outcomes frameworks. That process could be completed within 12 months.

Further information

- Transport for London (2018). The Mayor's Transport Strategy. Available at: <https://tfl.gov.uk/corporate/about-tfl/the-mayors-transport-strategy>

3. Electric vehicle leasing

Context and current policy

Over a quarter of new cars sold in the UK are now fully electric.¹⁵ Electric vehicles (EVs) are comparable in price to petrol and diesel ones and considerably cheaper to run. They are playing a critical role in reducing the UK's carbon emissions and local air pollution. UK sales have been driven by the Zero Emission Vehicle (ZEV) Mandate, a world-leading policy framework which requires manufacturers to gradually increase the proportion of electric vehicles they sell. The government also provides a consumer EV subsidy (the electric car grant) of £3,750, at a total annual cost of £650m.

The government is currently consulting on a possible relaxation of the ZEV mandate. This would be extremely damaging to the UK's net zero ambitions: road transport is now the UK's largest source of emissions, and the ZEV targets are a key component of the government's plans to meet its net zero targets. Relaxing them further (recent flexibilities have encouraged continued sales of higher-emission hybrids) would almost certainly mean the UK failing to comply with its statutory carbon budgets. British car manufacturers have been slow to embrace EVs and are under pressure from European and Chinese competitors in a rapidly growing global market. But they will not catch up by going more slowly.

Proposed policy

The proposed policy is a social leasing scheme for British-built electric vehicles, aimed at improving access to clean transport for lower

income households (those in the lower half of the household income distribution) and boosting UK EV manufacturing. While the bottom 40% of households typically spend under £100 per month on car ownership or leasing, the cheapest EV lease is around £141. A targeted social leasing model would offer British-built EVs from around £77 per month, with possible extensions such as ‘clean cars for carers’ for high-mileage users. Evidence from the introduction of such a policy in France shows strong uptake, with over 100,000 leases issued and significant acceleration in EV adoption.¹⁶

Economic and social benefits and costs

The rise in petrol and diesel prices due to the war in Iran has made electric cars more attractive, but their costs are still too high for many lower-income households. Social leasing would broaden access to EVs, helping lower-income households benefit from reduced running costs (potentially up to around £1,400 per year) while supporting domestic EV manufacturing and accelerating fleet decarbonisation. This would improve air quality, reducing harm linked to an estimated 43,000 early deaths annually from air pollution. Sustained to 2034, this policy could deliver 950,000 extra British-made EVs by 2035, cutting current domestic transport emissions by 9%.¹⁷

Fiscal cost

A social leasing scheme could be designed to support around 125,000 lower-income households per year for an estimated cost of £1.2bn.¹⁸ A scheme costed at around £0.5bn would support 50,000 motorists.

Political advantages and risks

The policy combines cost-of-living support with visible environmental and industrial benefits, offering a ‘fair transition’ narrative that links action on climate and air pollution with household savings. However, EV flexibilities and subsidies for leasing may face scrutiny over fairness and targeting.

Implementation and timetable

Social leasing would be delivered through a national Department of Transport scheme. Subject to funding and design it could be introduced within a year.

Further information

- Transport & Environment UK (2026). Urgent need to introduce social leasing of electric vehicles to support lower income households. Transport & Environment, 22 April. Available at: <https://www.transportenvironment.org/te-united-kingdom/articles/joint-letter-urgent-need-to-introduce-social-leasing-of-electric-vehicles-to-support-lower-income-households>

4. A bus service standard

Context and current policy

Buses are the most used form of public transport and are the only form available locally in many communities. Improving the extent and reliability of local bus services is one of the quickest and most visible ways of increasing access to work, education, training, healthcare and friends and family. Yet local bus services have been in long-term decline, with significant reductions in routes and mileage since 2010, particularly in rural and suburban areas.¹⁹ Recent reforms, such as enabling franchising, and moving away from fragmented funding, have been positive. But they are unlikely to deliver universal improvements. Franchising is complex and resource-intensive, meaning uptake will be concentrated in large urban areas. Without further intervention, many communities risk continued deterioration in services, reinforcing transport poverty and regional inequality.

Proposed policy

The government should introduce a bus service standard requiring every local transport authority to work towards providing at least defined levels of bus connectivity to all residents, with the longer term objective of ensuring that everyone has access to a minimum level of reliable, affordable and good-quality bus provision.

Campaign for Better Transport define two service levels that local transport authorities could deliver: a 'minimum baseline' that everyone should have access to by the end of this spending review period through targeting investment of current funding, and a best-practice 'ambition benchmark' that local authorities can strive to deliver within the next spending review period with additional investment. The standard would be tailored to settlement size, population density and local need, including minimum service frequencies, along with evening and weekend provision and access to key destinations like jobs, healthcare, education and retail.

The standard would be implemented through inclusion in Bus Service Improvement Plan and Local Transport Plan guidance, and monitored through the DfT's local outcomes frameworks. Local authorities would

assess gaps and evaluate local needs to ensure delivery, supported by stable long-term central government funding, with multi-year settlements giving local authorities the confidence to plan and maintain services over the longer term.

The standard should form part of a wider programme to make buses attractive to use, including for private car owners as an alternative travel choice. This should include investment in bus priority measures to improve reliability and journey times, better integrated ticketing and fares, and greater local control over bus networks through franchising, enhanced partnerships or other appropriate delivery models. The policy should be reinforced by a passenger growth duty on Great British Railways to improve rail connectivity, capacity and integration with other modes, and by reform of transport investment appraisal frameworks to prioritise accessibility, inclusion and emissions reduction, embedding a more connected, user-focused transport system.

Economic and social benefits and costs

A bus service standard would directly address transport poverty by improving access to essential services and opportunities. Improved connectivity would expand access to jobs and increase labour market participation; improve access to healthcare and education; and reduce social isolation, particularly for older and lower-income groups. Better bus provision also supports local economies by increasing footfall and enabling more efficient movement of people. Environmental benefits are substantial. Increased bus use reduces car dependency, cutting congestion and emissions. This supports progress towards climate targets while improving air quality – linked to around 43,000 premature deaths annually in the UK. Crucially, the policy responds to strong public demand for better public transport and cleaner, less congested communities.

Fiscal cost

The costs would depend on the ambition of the standard and existing service gaps, but the policy is unlikely to require entirely new funding streams. A minimum service standard can be delivered through targeting existing funding within the current spending review period at the places most in need. However, this should not simply mean withdrawing support from existing services elsewhere. If current funding is insufficient to meet the standard, additional funding will be required.

The additional funding needed should be considered within existing transport budgets, including through rebalancing investment away from road expansion towards public transport. Over time, the government should also consider reforms to road taxation and charging as potential sources of sustainable funding for public transport. Overall, done well,

the policy would require sustained, long-term investment rather than large one-off spending increases.

Political advantages and risks

The bus service standard offers a clear, tangible commitment: every community will have at least a minimum level of public transport. This is politically powerful, particularly in areas that feel left behind by current provision. It supports a 'fair transition' narrative, linking climate action with cost-of-living benefits by providing affordable alternatives to car use. It also aligns with public preferences for investment in public transport over road building. The main challenge is cost-effectiveness in low-density areas, where revenue investment per passenger is higher. There may also be resistance to reprioritising funding away from roads. However, a universal standard reframes transport as an essential public service, similar to utilities, rather than a purely commercial service, strengthening the case for public investment. The standard should allow flexibility in how it is delivered in very low-density areas, including through demand-responsive or community transport where fixed routes are not viable. Local transport authorities would need to be confident that the additional revenue investment required would be forthcoming and guaranteed long-term. Otherwise, they might resist being given a new standard to deliver without having the resources to do so.

Implementation and timetable

Implementation would require inclusion in Bus Service Improvement Plan and Local Transport Plan guidance, supported by multi-year, formula-based funding allocations, monitoring through the local outcomes frameworks, and revised appraisal guidance prioritising accessibility and social value. Local authorities would work with local bus operators and other local partners to identify gaps, determine the best ways to address these gaps, and procure additional services where needed, using franchising, enhanced partnerships or other delivery models as appropriate.

Updated guidance could be introduced within a year, and the passenger growth duty and appraisal reform in the next two years. By the end of the Parliament all local authorities could be expected to meet the bus service standard, with service gaps closed nationwide. A funding uplift for local buses would be required for the next Spending Review period.

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16. Climate Adaptation and Environment

Holly Brazier Tope¹

Introduction and rationale

In line with its obligations under the Climate Change Act, the Labour government has made important progress on meeting the UK's statutory carbon budgets. This is particularly true in energy policy, with a clear focus on reducing emissions, increasing energy security, lowering bills and accelerating the transition to clean power. It has well-developed plans to achieve its 95% clean power target by 2030 and to drive the electrification of the economy. Its Zero Emission Vehicle Mandate (so long as it is not weakened) is driving uptake of electric vehicles. However, this progress has not yet been matched by a similarly coherent and confident approach to climate adaptation or the wider environmental agenda.

The challenge now is to develop a broader environmental policy that combines mitigation, adaptation and nature recovery. This summer's extreme weather events in the UK, Europe and globally underline the urgency of continuing to reduce emissions, but also of preparing for the climate impacts that are already unavoidable. The UK needs to strengthen the resilience of its economy, infrastructure and communities to risks including flooding, extreme heat, drought and pressures on water resources. Adaptation should therefore be treated as a core component of climate and wider planning and health policy, alongside emissions reduction, rather than as a secondary or longer-term concern.

Alongside climate action and adaptation, the government needs a more positive and confident approach to nature. Its approach to nature protection in the planning system – accompanied by controversial rhetoric about environmental policy impediments to housing and infrastructure development – has been widely criticised by environmental NGOs. Nature should not be presented as the problem to be overcome, but as an essential part of a prosperous, resilient country and an asset that people value and connect with across all demographic groups. Nature recovery can also be an important part of adaptation, helping to reduce flood risk, manage heat and drought, improve water quality and build resilience to climate change.

A stronger focus on critical minerals and resource resilience is also needed to underpin the success of the wider climate and industrial strategy. The clean energy transition depends on materials such as lithium, cobalt and rare earth elements, for which the UK remains heavily dependent on international supply chains. The most resilient approach is not simply to secure more primary supplies, but first to reduce demand for critical materials and then keep them in circulation through reuse, remanufacturing and recycling. This can reduce supply-chain risks while limiting the environmental damage associated with extraction.

These priorities provide an opportunity for the government to shift both its rhetoric and its policy on nature and the environment. Rather than framing environmental protection as an obstacle to growth, the government can demonstrate how action on climate, adaptation, nature and resource resilience can support good growth, energy security, healthier communities and long-term economic resilience. The policies set out below offer a chance to address structural causes of environmental degradation while also tackling the housing and infrastructure challenges facing the country – demonstrating that a stronger environment and a more prosperous society can be mutually reinforcing.

1. A climate resilience standard for critical infrastructure

Context and current policy

Climate change is already disrupting the infrastructure and services on which households and businesses depend. Green Alliance analysis suggests that two thirds of current government actions addressing the UK's most pressing climate risks are inadequate for the scale of the challenge.¹ Extreme weather can disrupt transport and power, overwhelm drainage, damage infrastructure and disable communications. Climate impacts on food and water systems can compound these pressures, creating wider economic and social disruption.

Climate risks should therefore be treated as cascading and interdependent, rather than as separate problems. Disruption to one system can affect others, with implications for infrastructure, essential services, communities and the wider economy. The current policy framework does not yet consistently translate these risks into clear, measurable resilience requirements for critical infrastructure.

A climate resilience standard would provide a practical way to move from broad commitments on adaptation towards measurable action, ensuring that infrastructure is designed and maintained to withstand the climate risks it will face over its lifetime.

Proposed policy

Government should introduce a Climate Resilience Standard for Critical Infrastructure, setting clear minimum expectations for infrastructure operators to assess, manage and reduce climate risks.

By 2028, all nationally significant critical infrastructure should have:

- A comprehensive assessment of current and future climate risks, covering the most relevant hazards including flooding, extreme heat, drought and storms
- An assessment of interdependencies and cascading risks across infrastructure systems
- A funded adaptation plan identifying the highest-risk assets, the measures required to protect them and a timetable for delivery
- Clear resilience standards for maintaining essential services during and after extreme weather events

The standard should apply both to new infrastructure and existing long-life assets. New infrastructure should be designed to withstand future climate conditions from the outset, while existing infrastructure should be upgraded where risks are greatest.

Government should publish an annual resilience scorecard, with a target of 100% of nationally significant infrastructure completing climate-risk assessments and adaptation plans by 2028, and all priority high-risk assets meeting the relevant resilience standard by 2030. This would turn resilience from a broad ambition into something that government, regulators and infrastructure operators can be held accountable for. It would also ensure that investment in new infrastructure does not lock in future vulnerability.

Economic and social benefits and costs

The economic case for action is strong. Public First estimates that flooding is currently costing the UK economy £2.4 billion a year, potentially rising to £3.6 billion by 2050.³

Climate disruption also reduces productivity and damages infrastructure, increasing costs to government and undermining economic growth. Resilient infrastructure protects the continuity of essential services and reduces the risk that an extreme weather event creates wider economic disruption. This is particularly important because infrastructure systems are interconnected: disruption to power, transport, water or communications can create knock-on effects elsewhere. Climate disruption already threatens critical national infrastructure, with heatwaves capable of disrupting transport and power systems and floods and extreme weather able to overwhelm drainage, damage infrastructure and disable communications.

Adaptation is also an invest-to-save opportunity. Government evidence cited by Green Alliance suggests that every £1 spent on flood prevention saves around £8 in damages, including around £3 in direct government savings.⁴ This figure relates specifically to flood prevention, and is not necessarily a general return applicable to all adaptation

investment, but it demonstrates the potential value of investing in resilience before climate impacts cause damage. There will be costs for infrastructure operators, particularly where ageing assets need to be upgraded or strengthened. However, these costs are likely to be substantially lower when resilience is incorporated into planned investment and asset replacement rather than retrofitted following failure.

Fiscal cost

The principal fiscal cost would be the development of the standard, risk assessment methodology, data and monitoring arrangements, alongside targeted public investment where critical infrastructure cannot reasonably finance adaptation itself. The policy should not require government to fund all infrastructure adaptation. Operators should be responsible for making their own assets resilient, with government focusing public spending on assets where there are significant wider public benefits or where investment would not otherwise occur. Government should initially prioritise the highest-risk and most systemically important assets, rather than attempting to retrofit every asset simultaneously. This would allow spending to be targeted where it provides the greatest reduction in risk.

Political advantages and risks

The principal political advantage of the policy is that it frames adaptation as economic and national resilience, rather than as an additional environmental obligation. Climate disruption can threaten productivity, public services, infrastructure and security, directly connecting adaptation to the government's growth and security priorities. It also provides a clear response to the urgency of climate risks. Action is needed before 2028 to prevent further policy drift and ensure that infrastructure investment made today does not increase future exposure. Treating risks as interconnected also provides a stronger basis for protecting essential services during extreme events.

The main risk is resistance from infrastructure operators concerned about the cost of new requirements, particularly in regulated sectors, and the consequent possibility of higher consumer prices. This can be mitigated by using proportionate, risk-based standards, aligning requirements with existing investment cycles and giving operators clear long-term expectations. A further risk is creating another reporting framework without improving actual resilience. The standard should therefore focus on measurable outcomes and delivery, not simply the production of adaptation plans.

Implementation and timetable

Government could develop the Climate Resilience Standard during 2026–27, working with infrastructure operators, regulators and

technical experts, and introduce it through relevant regulatory and infrastructure frameworks in 2027. By 2028 – when the National Adaptation Plan⁵ is due – 100% of nationally significant critical infrastructure operators should have completed climate-risk assessments and published funded adaptation plans. From there, all infrastructure identified as being at highest risk and of greatest systemic importance should meet the relevant resilience standard by an agreed date, with progress reported annually.

Further information

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2. A green homes and nature recovery strategy

Context and current policy

Recent planning reforms, including updates to the National Planning Policy Framework (NPPF) and Biodiversity Net Gain under the Environment Act 2021, have begun integrating environmental considerations into development. However, the dominant narrative often presents nature as a barrier to housing, overlooking much more critical issues such as land banking, speculative development and under-resourced planning authorities. This policy shifts that framing, rejecting the idea that nature is the problem and instead addressing structural causes of the housing crisis. It builds on existing measures while moving toward a nature-positive, plan-led system that aligns housing delivery with ecological recovery.

Proposed policy

The policy reframes planning as a means of delivering housing and nature recovery together. This could involve strengthening a Nature Recovery Network to guide spatial decisions, helping direct development away from high-value habitats while identifying suitable areas for growth. It should also include exploring a 'Wildbelt' designation, reinforcing an avoidance-first approach, and enhancing Biodiversity Net Gain requirements, such as higher percentages, stricter enforcement and greater on-site delivery, alongside embedding

nature-positive building standards. A brownfield-first strategy, higher-density urban development and clearer expectations would support better outcomes for both people and wildlife, while allowing flexibility in local delivery. Similarly, the Future Homes Standard could incorporate nature-positive design – such as bat and bird boxes, hedgehog highways, bird-friendly glass and urban tree cover – embedding biodiversity and climate resilience into homes and communities.

Economic and social benefits and costs

A nature-positive system can improve public health, reduce NHS pressures and strengthen climate resilience through natural flood management and urban cooling. It also supports ‘green jobs’ and improves housing quality and place-making. Overall, it aligns development with long-term environmental and economic sustainability rather than short-term delivery targets.

Fiscal cost

The estimated indicative cost of this policy is £1–3 billion over five years, reflecting enhanced planning capacity, development of a Nature Recovery Network, Biodiversity Net Gain monitoring, and habitat restoration. Delivery could be co-funded through developer contributions and existing environmental funding.

Political advantages and risks

The approach responds to concern about nature loss and poor-quality development, offering a ‘build better, not just more’ narrative. Well-designed communities and effective Biodiversity Net Gain could support increased development by delivering clear local benefits. It is likely to attract broad public support, but could face resistance from some developers and short-term delays during transition.

Implementation and timetable

Delivery would combine updates to the National Planning Policy Framework and targeted amendments to the Environment Act 2021, introducing clearer duties on local authorities to incorporate nature recovery into plan-making while retaining local flexibility. Delivery capacity would be improved through increased funding and stronger statutory duties to ensure local authorities effectively integrate nature recovery into planning decisions.

Full implementation of Biodiversity Net Gain is possible within the next two years, including closure of loopholes and pilots. Integration into local plans and strengthening of the wider planning framework should be possible before the next election.

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3. Securing the resources of the future

Context and current policy

The government's Industrial Strategy identifies critical minerals as essential inputs to clean energy and advanced manufacturing, and the government has refreshed its Critical Minerals Strategy to secure supplies through domestic production, recycling, midstream processing and more resilient supply chains.⁵ It points to a forthcoming Circular Economy Growth Plan, not yet published (and rumoured to be shelved). This proposal builds on that foundation, sharpening the focus on recycling, reuse and recovery to protect national security, cut import dependence and meet renewable energy targets. In an increasingly unstable global context, strengthening domestic control over these materials is a core national security priority for the UK.

Proposed policy

This policy would aim to accelerate a domestic circular economy for critical minerals while reducing overall demand to strengthen resilience. This would involve introducing ambitious recycling and recycled content targets (starting with batteries), matching or exceeding EU ambition, alongside strong procurement rules for recycled content in energy and defence. Product passports and strengthened supply chain reporting (including Scope 3 emissions and due diligence data) would maximise recovery and reduce reliance on imports. A national materials data system would track stocks and flows of critical minerals as strategic assets. Reuse and remanufacturing would be scaled in sectors such as wind and EVs to retain value domestically. Investment via the National Wealth Fund would expand collection, sorting, disassembly and reprocessing infrastructure as critical national capability, alongside building workforce capacity through a just transition framework.

Demand reduction would be embedded across energy and transport policy, supported by smarter electricity systems with demand-side flexibility and faster progress on energy efficiency in buildings to reduce both energy and material use. Taken together, these measures would recognise critical minerals as strategic resources and position recycling and efficiency as essential to safeguarding UK national security.

Economic and social benefits and costs

Strengthening recycling and reducing demand would boost national security by cutting exposure to geopolitical shocks and unstable supply chains. It would create skilled, unionised jobs in recycling, repair and remanufacturing, while retaining value within the UK. It would also reduce environmental and social harms from extractive industries abroad and lower system costs through more efficient material use.

Fiscal cost

The estimated indicative cost of this policy is £2–4 billion over 5 years, focused on targeted public investment by the National Wealth Fund and/or British Business Bank to crowd in private finance for circular infrastructure and innovation. Many measures, including standards and procurement, are low cost but high impact.

Political advantages and risks

According to recent polling, 82% of the British public (across all political parties) want to see a shift to more efficient resource use and this is likely to have gained further popularity in the wake of the recent conflict in Iran and the impact on global supply chains.⁶ This approach also offers a strong economic security narrative focused on reducing import dependence and making better use of domestic resources. It aligns with net zero, industrial strategy and cost of living priorities and can deliver visible progress within a Parliament. However, it requires a shift away from assumptions of rising demand in some materials sectors and may face resistance from parts of industry.

Implementation and timetable

Delivery would combine regulation, procurement and targeted investment, using powers under the Environment Act 2021 to introduce product standards and targets, embedding circular requirements in procurement, and allocating funding through Spending Reviews and the National Wealth Fund. It would be possible to introduce targets, procurement requirements and reporting rules, and establish a National Material Datahub in the next two years, and to scale circular economy activity, embed reuse and remanufacturing markets and integrate demand reduction by 2030.

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17. Foreign and Security Policy

**Mark Leonard, European Council on Foreign
Relations**

Introduction and rationale

In a decade, Britain has lost both its chief economic partner (because of Brexit) and its chief security guarantor (because of Trump) — yet our political class carries on as if we still had both. In the decade since 2016, Britain has had not much better than zero growth and almost none of our governments' supply side policies have shifted the dial on growth projections. Geography doesn't rule out trade and economic cooperation with, for example, Canada and Korea, but it is a huge impediment: Britain's total trade with the EU is two and a half times its trade with the USA and eight times that with the countries of the Trans-Pacific Partnership. And on security, the reality is that, even beyond Trump's unreliability, the USA is shifting its attention away from Europe and all of America's closest allies are moving towards greater strategic autonomy.

Many of our domestic problems have international roots, and the two cannot be solved separately. Since 2008, international crises — the financial crash, the eurozone crisis, migration surges, Covid, Ukraine, energy insecurity and inflation — have become political fuel at home, with populists jumping from grievance to grievance while the state is delegitimised and overwhelmed. A foreign policy that doesn't visibly address cost of living, borders and community cohesion will keep feeding them.

What's needed is an international strategy that is political, and a political strategy that is international. Starmer's direction of travel was often right and professionally executed, but he refused to make trade-offs and his incrementalism fell far short of the scale of the challenge. The homeopathic nature of the EU 'reset', a Strategic Defence Review that increases rather than decreases our dependence on the USA, the collapse of the Chagos deal, and the Defence Investment Plan epitomise the limits of managerialism. The new government has both the mandate and responsibility for serious change rather than continuity. Given the unreliability of the US, and the UK's specific geography and interests, a 'Pivot to Europe' is the only model capable of addressing the UK's core strategic challenges.

In the last five years Putin and Trump have shifted UK public opinion. Westminster opinion seems to assume the public is still defined by what happened in 2016. It isn't. Increasingly, the UK public look toward Europe rather than the US, not only on economics and migration, but also on questions of security. When asked whom Britain should turn to for security, in recent polling² 63% prioritise Europe over 19% for the US, and even the formerly crazy idea of a European army with British troops now wins a plurality — a majority view shared across almost all parties, including the Conservatives (though not Reform). Many of the old Leave/Remain divisions have faded. The country has reached a settled, negative verdict on Brexit (57% say leaving was wrong;

66% say it hurt the cost of living; even 58% of Leavers think it made illegal immigration worse). People are open to a new start: 73% want a closer relationship with the EU against 8% who want a more distant one; even 60% of Leavers want a closer relationship. The most eye-catching finding is that 68% of the public would now accept reinstating reciprocal freedom of movement — allowing EU and UK citizens to live, work, and travel freely. Only 18% reject it. Even 54% of Leave voters would accept such a deal, as would 59% of Red Wall voters.

Politically, this matters for Labour's coalition. 85% of Labour supporters would now vote to join the EU; and the voters bleeding to the Greens, Lib Dems and into political disengagement are as pro-European as those who stayed – while half of those going to Reform would vote to join as well. Europe now unites progressives but divides the right. In the future, Europe will be less a risk to manage; it could become an asset to use.³ If Labour can tether Farage to Trump, the US president's unpopularity could impose a ceiling on Reform's potential and recast the Labour government as a spirited defender of national autonomy and security in the face of an external threat.

1. Setting the goal of joining a renewed European Union

Since Brexit the EU has moved from a liberalising economic project to become a protective, security-led one, and Britain must act quickly to embed itself within it. The Starmer government's attempt to reset the relationship was admirable in intention, but the results have been disappointing. What is lacking is a larger strategic frame that is honest about the destination, not merely the direction of travel.

That destination should be EU membership. The accumulated costs of Brexit (in lost trade, diminished diplomatic weight, reduced labour mobility, and shrunken scientific collaboration) have been severe and are well-documented. The Bank of England cites research estimating that the Brexit process has reduced UK GDP by 6% to 8%, investment by 12% to 18%, employment by 3% to 4%, and productivity by 3% to 4%.⁴

More fundamentally, Brexit was premised on a model of free and deregulated global trade that has since collapsed.

Rather than asking people to admit they were wrong in 2016, the government should use the new geopolitical moment to build a European agenda that sits on the right side of sovereignty concerns.

- **Economy: lead on the cost of living.** Pro-Europeans tend to reach for macro arguments (the 8% GDP hit, trade deals), but voters care about everyday costs.⁵ 66% say Brexit has hurt the cost of living (54% of Tories, 43% of Reform) and 65% say it has hurt

the economy. Demand for closer economic ties is near-universal and faces no organised opposition: 46% support a closer trade relationship and 13% oppose; even Leavers split favourably, and Reform voters split 49–20 in favour. 63% would accept freedom of movement for EU citizens in exchange for a closer trade relationship, and only 18% would reject this.

- **Security and defence: lead on defending ourselves from Trump.** Voters draw a direct line from the cost of living to security through to energy shortages. The collapse of trust in the US is pulling defence opinion toward Europe — strongly and across party lines. 65% back sharing military resources and intelligence with the EU, including Leave voters.
- **Migration: lead on control, not openness.** The government's political objective should be separating the politics of the border from the politics of immigration. The goal should be to have a more liberal approach to immigration – but that is only possible if you win control on the border. The Tories' illegal-immigration 'own goal' (40% of voters, including 42% of Reform voters, believe that there were fewer small boat crossings before Brexit, compared to 8% who disagree) creates a cross-party opening for cooperation framed as freedom of movement.

Polls show that joining the EU would already have majority public support. In a YouGov poll published on 20 April, 55% of all voters support the UK rejoining the EU, with 33% opposed. There are majorities in all parties other than the Conservatives and Reform.⁶

Joining the EU cannot happen overnight. But the government should begin to mount the argument now. It should allow MPs to freely express their views on Europe – including to say that they want to join. It should shift its rhetoric from its red lines, and seek a mandate to explore all options, with a view to making a Labour manifesto pledge at the next election to join a renewed EU. There is a narrow window to shape a European security order, which is now in flux. It makes sense to take full advantage of Trump's presence in the White House. The arguments for full membership – strategic, economic, social – have never been stronger.

In the meantime, there is an ambitious programme of deepening to pursue. The UK's most powerful near-term offer is as a security provider, and by linking defence with economic security, London can build a caucus of pro-UK states inside the EU. The government should move urgently toward a European Economic Security Area, building on dynamic alignment in energy and electricity markets and extending it across industrial policy, supply chains and technology regulation. It should explore joining a customs union as an early step, commissioning joint work with industry to advance this agenda. The long-term goal should be an economic and security union that links trade, industrial

and defence policy into a coherent whole, building joint resilience on raw materials, critical infrastructure and resisting Chinese economic coercion.

2. Rethinking defence spending

The call made in the 2025 Strategic Defence Review written by Lord Robertson, Fiona Hill and General Sir Richard Barrons for increased UK defence spending has triggered the wrong debate. The political heat has been about how to raise the defence budget towards the NATO target of 3.5% of GDP by 2035. There has been far less discussion about what the money should be spent on, whether deepening dependence on an unreliable USA makes sense, and why the UK has spent more than France for many years and got less in return.

The Strategic Defence Review was drafted before the Greenland crisis, the war in Iran, and the wild fluctuations on the Chagos deal. The UK should use this moment to take stock of the rupture in the current world order and fundamentally reexamine how it positions itself vis-à-vis its neighbours and allies. This doesn't mean breaking with the US. Germany, France and Denmark all remain American allies. But they are taking active steps to de-risk the relationship and move toward greater autonomy. Britain should do the same. The UK should demonstrate seriousness about a new approach by cancelling the proposed latest purchase of American F-35s – both for affordability reasons, and to help detach from the US. This would create momentum for negotiating entry into a more ambitious Security Action for Europe (SAFE) programme, the €150 billion (2025-30) EU financial instrument providing low-interest, long-maturity loans for collaborative defence procurement.

Rather than trying to replicate American capabilities, Britain should work actively with European partners on the systems that will define the future of warfare: drones, missiles and AI. White elephants like the aircraft carrier programme, designed for a world of American-backed power projection, should be retired. The most radical step would be to join Emmanuel Macron in an explicit offer of extended nuclear deterrence to European allies, while working over the longer term to reduce dependence on American delivery systems. If a credible pivot to Europe shapes the defence agenda, it will also be easier to persuade Labour backbenchers to support defence spending. The politics would change if this was about building genuine European security rather than pacifying the White House.

The UK has signed up to the NATO defence spending target of 3.5% of GDP by 2035 (note that Spain has opted out, arguing that 2.5% is sufficient), and the government has suggested that it will get to 3.0% by 2030.

It hardly needs saying that these targets will be extremely difficult to achieve, requiring – on present projections – significant cuts in other budgets. With current defence spending being around £66bn pa, the 3.5% target would require an additional £36bn of annual spending in today's terms, equivalent to £500 per person.

One option for funding part of this would be the issuance of defence bonds to the public, a proposal recently made by the Liberal Democrats, who claim that £20bn could be raised by this method.⁷ Another possibility – not to raise funds, but to offset other spending pressures – would be to include security-related expenditures in the UK's overseas development assistance programme to come within the definition of defence and security spending, as proposed in the International Development chapter of this report. Allowing 10% of the defence budget to be spent on conflict prevention, humanitarian assistance and climate adaptation as part of the 3% and 3.5% targets would enable development assistance to be restored and reduce the additional sums needed for military expenditure.

3. De-risking relations with China and the US

Britain faces the prospect of coercion from the two most important powers in the world. Managing this double exposure demands clarity rather than the studied ambiguity that has characterised British foreign policy in recent years.

The 'special relationship' is becoming ever less special. The challenge for British policymakers is to chart a gradual transition toward less dependence on both the US and China, as Canada, Australia and Germany are already doing. Britain must de-risk without rupturing, maintaining channels with both superpowers while building alternatives.

On China, the government must be more clear-eyed about both the advantages and the limits of engagement. China's slowing growth, aggressive export promotion and refusal to shift to domestic consumption mean that the Chinese market is shrinking rather than growing for Western countries. China has already shown its willingness to use economic coercion through rare earths, magnets and supply-chain pressure. A progressive approach to China means taking seriously the workers and communities exposed to its export dumping, not simply the corporations that benefit from its market.

The EU is already building tools to address this: stretching WTO compliance, revising procurement rules, adding conditions to Chinese investment, and building joint resilience on critical supply chains. Britain has a strategic interest in ensuring these approaches include like-minded non-EU states, including itself, rather than defaulting to a 'buy European' logic that would exclude the UK. A mid-sized country like Britain cannot perform economically without connections to both

the US and China, but it must be far more intentional about managing those relationships – ensuring they build resilience rather than deepen dependency.

The route to managing both the US and China runs through Europe. A Britain embedded in the European security and economic ecosystem has far more leverage with Washington and far more credibility in Beijing than one suspended in post-Brexit ambiguity, claiming to be a bridge between two blocs while belonging to neither.

4. Dealing with the domestic aspects of foreign policy

The fourth big focus of a renewed foreign policy should be community cohesion in the UK. One lesson from the tragedy in Gaza is that the Government failed to communicate adequately with either Jewish or Muslim communities. An increasingly large number of foreign policy issues are intertwined with civic life in the UK. Traditionally, the FCDO has been suspicious of engaging communities on issues like the Middle East or Kashmir. The UK doesn't have much leverage on most of these conflicts, and these cause significant intra-community tensions. The FCDO should consider creating a new 'domestic division' to engage politically with different communities around foreign policy concerns. There are some precedents for this in Germany and France.

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18. International Development

Maria Finnerty, Labour Campaign for International Development

Introduction and rationale

On Britain's role in the world, this government stands at a crossroads. Overseas Development Assistance (ODA) has been cut to its lowest level since the early 90s, just as we enter a period of instability unmatched for generations: Russia's war in Ukraine, conflict and the search for peace in the Middle East, and intensifying climate and economic shocks.

But aid cuts need not – and must not – define this government's development legacy. This challenging context invites us to rethink British development policy from first principles. The government faces two historic opportunities to establish a new agenda for British development leadership: the UK's G20 Presidency in 2027 and G7 Presidency in 2028. A bold and ambitious global agenda should be rooted in the same priorities being pursued by the new government domestically: good growth and jobs; reform of economic and financial systems to deliver a fairer deal for those left behind by half a century of neoliberal globalisation; and a comprehensive commitment to strengthening national security that considers food, energy, health, and economic security as well as defence.

Aid can do much good. Humanitarian assistance for people and countries in crisis must be maintained, and the government should set out a plan to return to 0.7% ODA spending as soon as possible. However, aid is no longer the only tool in the box. The UK's upcoming G20 Presidency will take place in the context of a global financial system that is profoundly failing the world's poorest and most climate-vulnerable countries. Every year, low-income countries lose vastly more through debt costs, tax abuse, unjust trade deals, and illicit financial flows than they will ever receive in aid. A modern development strategy must ask how Britain can use its global influence to build a fairer and more functional global economy – one that enables countries to mobilise their own resources and reduce aid dependency. This is a shift from donorship to partnership, and from charity to mutual resilience.

Such an agenda is firmly in the UK's national interest. More resilient economies across the Global South mean larger and more stable markets for UK exports; prevent the imported inflation that is pushing up the cost of living and the cost of doing business across the UK; lower conflict and climate-related price shocks; strengthen trading relationships; reduce irregular migration; and neutralise national security threats.² The beneficiaries are the British public as well as people all over the world. Polling shows that majorities across Labour, Green, Lib Dem and Conservative voters back greater international cooperation on shared challenges, supporting development and climate action when it is framed around mutual benefit and a visible link to life in the UK, rather than aid or charity.³

A new development framework should seek to reshape the UK's relationships with the countries of the Global South, build a global financial system that enables rather than obstructs progress towards sustainable development goals, and strengthen our shared resilience in the face of multiple crises. Next year's G20 Presidency is a powerful strategic opportunity to begin this shift.

1. A new approach to development aid

At just 0.3% of national income, the UK's aid budget is at its lowest level since 1999 and is now one of the lowest in Europe. The last Labour government made meeting the international 0.7% target for Official Development Assistance (ODA) a legal requirement, and this was achieved in 2013 under David Cameron.⁴ Not only has the aid budget been cut since then; it has also been diverted towards meeting refugee costs at home on the one hand and assisting Ukraine on the other. The UK now provides just 0.2% of its national income to low and lower-middle income countries in the Global South, with the 2025 cuts expected to mean nearly three million fewer children in school and twelve million people losing access to clean water globally.⁵ Public spending is constrained, and overseas aid is not the public's highest priority. It will therefore take time to move back towards the 0.7% goal. In the short term, the government's priority should be to cut the amount of overseas aid spent on housing refugees at home. More broadly, the government should rethink its approach to development assistance in the following three ways.

First, there are strong grounds for regarding much humanitarian and climate-related development assistance as a form of preventative security expenditure. As the UK's security and military establishments have made clear – echoing a longstanding conclusion of the US National Security Assessment – poverty and climate change impacts are 'threat multipliers'.⁶ They make political instability, conflict, migration and internal displacement more likely. The conflict in Sudan provides a distressing case in point. Counting some humanitarian and climate-related spending as contributions to the defence and security target does not increase the available resources, but it does reduce one of the otherwise competing pressures. Stipulating that 10% of the 3% and 3.5% defence spending targets should be spent in these areas would enable development assistance to be partially restored.

Second, the UK should join the international movement towards a framework of global public investment (GPI).⁷ This would help advance a multilateral system of governance in which all countries – not just the largest and richest – can play a role. A system of financing global public goods such as climate and environmental resilience, health, conflict prevention and peacekeeping would ground our international spending in a new compact in which all countries would contribute according to their level of national income, all would be eligible to be

beneficiaries according to their needs, and all would have a say in the governance of the funds and institutions involved. This would transform the current aid system, under which developed countries' contributions are monitored and accounted for by the OECD but all other countries' contributions (including those of major donors such as China and the Gulf states) are monitored and accounted for only by themselves, if at all.

Third, the UK's bilateral assistance programmes should be based on a role for Britain as a partner to developing countries, rather than simply a donor. Countries that receive UK aid should sit at the table as equals, with different interests to be negotiated and experience and competences of their own to offer the UK, as well as vice versa. This would require a profound shift of mindset within the Foreign, Commonwealth and Development Office – but one that would be welcomed by many of its development staff. A pilot programme with two or three aid recipient countries would enable both sides to see how it could be done.

2. Reforming the international financial architecture

The 'international financial architecture' comprises the system of multilateral investment and liquidity support provided by the International Monetary Fund, World Bank and other multilateral development bank (MDBs), as well as the rules that govern international debt, tax, trade, and cross-border financial flows. Most of these institutions and arrangements were established in very different geopolitical and economic times after the Second World War, and in most of them governance power largely rests with the larger economies of the global North. This is no longer appropriate. The UK should support efforts to ensure that the global institutions and frameworks that deliver assistance are representative and democratic. Pushing for increased transparency and accountability from the IMF and World Bank and supporting fairer voting rights for Global South countries within these institutions would improve developing countries' agency over their own development pathways.

Under the existing system, net financial flows have gone into reverse: money is flowing out of the poorest and most climate-vulnerable countries, rather than into them. The size of the outflows is staggering: the least developed countries lose \$46 billion each year to corporate tax abuse; illicit financial flows have cost African countries \$1.7 trillion over the past four decades; and private lenders have extracted over US\$141 billion more in interest from developing economies than they have lent since 2022.⁸

Reforming those systems could unlock hundreds of billions for development and climate action at zero cost to the UK Treasury – and

Britain has a unique role to play. The UK may no longer be a military superpower, but it remains a global financial superpower, with the central roles of the City of London and British Overseas Territories in international finance affording Britain extraordinary influence over the systems that shape development. Recent reductions in UK ODA make structural reform particularly important, enabling Labour to offset some of the losses associated with lower aid spending without requiring additional expenditure.

More than 90% of debt owed by low-income countries to private lenders is governed by English law,⁹ which allows predatory lenders to sue countries in debt distress in British courts. This routinely frustrates debt relief negotiations, with devastating human consequences for the citizens of debtor countries. To support a fairer and more functional global debt system, the UK government should legislate to close the legal loophole which allows private lenders and vulture funds to sue indebted countries for the full value of debt in UK courts after pricing in default risk. Such legislation, paralleling the 2010 Debt Relief Act passed by the last Labour government, could also play an important strategic role in enabling reform of the G20 Common Framework, as discussed in the following section. It would reassure bilateral creditors such as China that Western private creditors will act responsibly and cooperatively within debt relief negotiations.

While the UK has taken steps towards greater transparency of beneficial ownership registers in Overseas Territories and Crown Dependencies, not all have complied, and this continues to enable large-scale, and often corrupt, resource outflows from developing countries. It is estimated that £325 billion of illicit funds is stored in UK accounts and assets. When Crown Dependencies and Overseas Territories are included, this figure surges to £788 billion.¹⁰ The OECD's Africa Initiative estimates that Africa loses as much as \$50-60 billion annually – and much of this money flows through British Crown Dependencies or the City of London.¹¹ The UK should introduce stronger beneficial ownership disclosure and tougher oversight over shell companies, ensuring that there are fully public, loophole-free beneficial ownership registers across its Overseas Territories implemented by the 2027 deadline.

The final area in which the UK has particular power and responsibility is tax. Globally, it is estimated that multinational corporations underpay tax by around US\$348 billion each year, by shifting their accounting profits away from the countries in which the money is made towards lower-tax jurisdictions.¹² This is a huge loss of revenue to both developing and developed countries, including the UK, which lost an estimated £12.5 billion in tax revenue in 2021.¹³ Over recent years the OECD has been seeking to control such behaviour under its Base Erosion and Profit Shifting (BEPS) initiative, but little progress has been made. As a result, the countries of the global South have demanded that governance of the international tax regime should shift from the OECD (where they have no say) to the UN (where they do). This was

agreed at the UN Financing for Development Conference in 2025, but the UK has opposed it. The new government should support, not block, the implementation of the UN Tax Convention.

3. The UK G20 Presidency in 2027

The UK takes over the presidency of the G20 from the US in December 2026 and holds it throughout 2027. This is a historic opportunity to enact reforms in key areas – such as debt, tax, illicit financial flows, and MDB reform – as part of a broader strategy to build a fairer and more functional global financial system. The Government should therefore use its 2027 G20 Presidency to champion a new global development compact, nurturing a coalition of support for strategic reforms in the following four areas.

International debt

For lower-income countries, the cost of servicing foreign debts is at the highest level in 30 years. Unsustainable debt is severely limiting the fiscal space which countries have to fund essential services like health and education, tackle the climate crisis, and invest in long-term development. In the context of a highly financialised global economy, private lenders (rather than governments) are now the largest creditor group, accounting for 61% of lending to sovereign debtors.¹⁴ When the economic shocks associated with the Covid-19 pandemic pushed dozens of vulnerable countries into debt crisis in 2020, the G20 established an initiative to suspend debt service payments and created a Common Framework for Debt Treatments to facilitate debt restructuring and relief. However, private creditors have delayed and undermined fair debt relief in every case that has so far been brought to the G20.¹⁵

As part of its G20 presidency the UK should therefore seek to secure reforms to the Common Framework in line with those set out in the African Union's Common Position on debt.¹⁶ These include a commitment to deeper and faster debt relief and a suspension of payments upon application to the Framework. The threat of or actual legal action in the UK High Court has been used against Chad, Ethiopia and South Sudan, either to hold out or demand higher payments than other creditors; and in South Sudan's case, to recover funds in a country on the brink of famine.¹⁷ G20 Common Framework reform should therefore be underpinned by legislative change in the UK, as described above.

Action to bring debt servicing costs down to a more sustainable level could counteract some of the damage done by recent aid cuts, producing net gains across water, sanitation, education and health.¹⁸ Whilst 12 million people are projected to lose access to such essential services due to Britain's aid cuts, reducing debt servicing costs to an average in heavily indebted countries of 10 per cent of government

revenue would provide 11 million people with clean water and 23 million with basic sanitation – a net increase of 22 million. The 2.9 million children pushed out of school by aid cuts would be matched by 3 million additional students, along with 250,000 newly recruited teachers. Not only would the decline be arrested; enrolment would grow. The government therefore has both a strategic opportunity and a moral responsibility to act by pursuing a package of domestic legislation and G20 Common Framework reforms in 2027.

International taxation

In 2024, under Brazil's presidency, the G20 supported the principle of a global minimum wealth tax on the world's multi-billionaires, to raise funds for international sustainable development and climate action. The UK should take forward this proposal under its presidency and seek to promote other global tax mechanisms that can raise much-needed funds for global climate action: polluter-pays levies on shipping and frequent flyers, and windfall taxes on global oil and gas profits. Under the current difficult geopolitical circumstances, Britain may not achieve concrete agreements during next year's Presidency, but incorporating progressive ambitions on taxation would set a basis for progressive multilateralism under future presidencies, and establish the UK as a leader of global governance reform.

Illicit financial flows

It is estimated that the least developed countries lose ten times as much as they receive in aid to illicit financial flows; that is, cross-border movements of money that are illegal in their source, transfer or use. This includes funds obtained through corruption, smuggling, organised crime, tax evasion, or financing of terrorism, as well as transfers that exploit loopholes in tax systems or financial regulations.¹⁹ The UK is hosting an Illicit Finance Summit in December at which it should launch a G20 programme on the return of stolen assets and seek stronger international rules on beneficial ownership disclosure and shell-company oversight. This will also support domestic UK priorities on money laundering.

International public finance

There is considerable potential to free up new sources of international public finance. It is estimated that the World Bank and other MDBs could lend an additional \$600-800bn from their existing balance sheets (that is, without any new funding) by making full use of reforms available from their recent Capital Adequacy Framework reviews.²⁰ At the same time new funds could be freed up at the IMF through gold sales and the further reallocation of Special Drawing Rights (SDRs). The G20 has a particular responsibility to release new development finance from these sources in the context of the rising energy and food prices which have followed from the war on Iran and cuts to bilateral aid.

None of these measures would have a fiscal cost to the UK, but if the G20 could agree them under the UK presidency they would have a dramatic impact on the lives of people in the Global South, with consequent benefits for the UK.

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